







A.C. Knights.

75, UPPER BRIDGE ROAD.

CHELMSFORD.





# PITMAN'S DICTIONARY OF BOOK-KEEPING

A BOOK OF REFERENCE  
ON ALL MATTERS CONCERNING BOOK-KEEPING  
AND ACCOUNTANCY FOR STUDENTS, TEACHERS  
AND PRACTITIONERS

BY

R. J. PORTERS

FORMERLY BOOK-KEEPING MASTER AT PITMAN'S SCHOOL

*SECOND EDITION*  
*REVISED AND ENLARGED*

LONDON  
SIR ISAAC PITMAN & SONS, LTD.  
PARKER STREET, KINGSWAY, W.C.2  
BATH, MELBOURNE, TORONTO, NEW YORK

1923

FROM THE SAME PUBLISHERS

**PITMAN'S HIGHER BOOK-KEEPING AND ACCOUNTS.** By H. W. PORRITT and W. NICKLIN, A.S.A.A. In crown 8vo, cloth, 304 pp., with many up-to-date forms and facsimile documents, 5s. net.

**ACCOUNTANCY.** By F. W. PIXLEY, F.C.A., *of the Middle Temple, Barrister-at-Law, Ex-President of the Institute of Chartered Accountants.* In demy 8vo, cloth gilt, 318 pp., 7s. 6d. net.

**COST ACCOUNTS** in Principle and Practice. By A. CLIFFORD RIDGWAY, F.C.A. In demy 8vo, cloth gilt, with 40 specially prepared forms, 5s. net.

**ADVANCED ACCOUNTS.** A Manual of Advanced Book-keeping and Accountancy for Accountants, Book-keepers, and Business Men. Edited by ROGER N. CARTER, M.Com., F.C.A., *Lecturer on Accounting at the University of Manchester.* Definite and plain guidance is given on every conceivable point likely to occasion trouble or doubt to the advanced student, and the work will be found to be thoroughly up to date and freely illustrated throughout by the latest forms and documents reproduced in facsimile. In demy 8vo, cloth, 988 pp., 7s. 6d. net.

---

*Complete List, post free, on application.*



## PREFACE

THIS work provides in dictionary form, with its consequent facilities for ready reference, information concerning book-keeping and accountancy. The subjects are dealt with alphabetically. With long articles the text is divided into sections, the subject-matter of each being indicated at the commencement by sub-headings in heavy type. The book is thoroughly up to date, and includes Accounts Current, Sinking Fund, Annuity, and Insurance Policy Methods of Dépreciation ; Hire Purchase, Investment, Assurance, and Insurance Accounts ; Income Tax, etc. ; also Executorship Accounts, with facsimiles of the official forms. The information furnished has been made as complete as possible within the limits of the book. Specially prepared and fully-worked examples accompany the text, alternative methods being given, and their advantages and disadvantages (if any) are pointed out. The book will prove extremely valuable to both students and teachers, providing them, as it does, with the maximum of knowledge in the minimum of time.

The author's twenty years' practical experience of book-keeping, accountancy, and auditing, together with some years' experience as teacher, coach, and examiner has, he trusts, enabled him to simplify many matters which students and teachers consider difficult, and to clear up numerous points on which they have hitherto been in doubt.

R. J. PORTERS





# 

ABA]

[ACC

**ABATEMENTS.**—(See INCOME TAX.)

**ACCEPTANCE.**—A term applied to a bill of exchange when the drawee has signed his name across the face of it, thereby agreeing to pay it. Before acceptance, the bill is more properly called a draft. (See BILL OF EXCHANGE.)

**ACCEPTANCES ON BEHALF OF CUSTOMERS.**—In Bank Accounts, bills which have been accepted by the bank on behalf of its customers. Remittances payable abroad are rendered more easily negotiable by the banker's acceptance than by the customer's own acceptance. The customer must, however, have sufficient credit balance on current account to cover the risk. This item appears on both sides of a bank's balance sheet; on the liabilities side it represents the bank's indebtedness abroad; on the assets side it represents the customer's indebtedness to the bank.

**Example—**

### 

<i>Liabilities.</i>	<i>Assets.</i>
Acceptances on behalf of customers as <i>per contra</i> .	Liability of customers for acceptances as <i>per contra</i> .

**ACCOMMODATION BILLS.**—These are sometimes called “kites” or “windmills.” They are bills which are put into circulation merely in order to raise money by discounting them, thus accommodating one or both parties to the bill. They are not legitimate bills, as no consideration has been given for them. The following worked examples will illustrate the usual methods.

**Example 1.**—On 1st Jan. A. Brown accepts a three months' bill for £100 drawn on him by R. Smith for the latter's convenience. Smith discounts the bill at the rate of 5 per cent., and at maturity forwards Brown a cheque with which to meet the bill. Show the accounts in the books of both parties.

## In Brown's Books.

<i>Dr.</i>		R. SMITH.				<i>Cr.</i>	
Jan. 1	To Bill Payable	1	0	Apr. 3	By Cash.. ..	100	

<i>Dr.</i>		BILLS PAYABLE.				<i>Cr.</i>	
Apr. 4	To Cash .. ..	100		Jan. 1	By R. Smith ..	100	

<i>Dr.</i>		CASH BOOK.				<i>Cr.</i>	
Apr. 3	To R. Smith ..	100		Apr. 4	By Bill Payable	100	

## In Smith's Books.

<i>Dr.</i>		BILLS RECEIVABLE.				<i>Cr.</i>	
Jan. 1	To A. Brown ..	100		Jan. 1	By Cash ..	98	15
				„	„ Discount ..	1	5

<i>Dr.</i>		A. BROWN.				<i>Cr.</i>	
Apr. 3	To Cash .. ..	100		Jan. 1	By Bill Recei'ble	100	

<i>Dr.</i>		CASH BOOK.				<i>Cr.</i>	
Jan. 1	To Bill Recei'ble	98	15	Apr. 3	By A. Brown ..	100	

<i>Dr.</i>		DISCOUNT.				<i>Cr.</i>	
Jan. 1	To Bill Recei'ble	1	5				

**Example 2.**—On 1st Jan. A. Brown and R. Smith draw on one another at three months for £100. They discount each other's bills at the rate of 5 per cent. per annum, and at maturity each meets his own acceptance. Show the accounts in the books of both parties.



## In Brown's Books.

<i>Dr.</i>				R. SMITH.				<i>Cr.</i>			
Jan. 1	To Bill Payable	100		Jan. 1	By Bill Recei'ble	100					

<i>Dr.</i>				BILLS RECEIVABLE.				<i>Cr.</i>			
Jan. 1	To R. Smith ..	100		Jan. 1	By Cash .. ..	100					

<i>Dr.</i>				BILLS PAYABLE.				<i>Cr.</i>			
Apr. 4	To Cash .. ..	100		Jan. 1	By R. Smith ..	100					

<i>Dr.</i>				DISCOUNT ON BILLS.				<i>Cr.</i>			
Jan. 1	To Cash .. ..	1	5								

<i>Dr.</i>				CASH BOOK.				<i>Cr.</i>			
Jan. 1	To Bill Recei'ble	100		Jan. 1	By Dis. on Bills	1	5				
				Apr. 4	„ Bill Payable	100					

## In Smith's Books.

<i>Dr.</i>				A. BROWN.				<i>Cr.</i>			
Jan. 1	To Bill Payable ..	100		Jan. 1	By Bill Recei'ble	100					

<i>Dr.</i>				BILLS RECEIVABLE.				<i>Cr.</i>			
Jan. 1	To A. Brown ..	100		Jan. 1	By Cash .. ..	100					

<i>Dr.</i>				BILLS PAYABLE.				<i>Cr.</i>			
Apr. 4	To Cash .. ..	100		Jan. 1	By A. Brown ..	100					

<i>Dr.</i>				CASH BOOK.				<i>Cr.</i>			
Jan. 1	To Bill Recei'ble	100		Jan. 1	By Dis. on Bills	1	5				
				Apr. 4	„ Bill Payable	100					

<i>Dr.</i>		DISCOUNT ON BILLS.				<i>Cr.</i>	
Jan. 1	To Cash .. ..	1	5				

**Example 3.**—On 1st Jan. A. Brown accepts a three months' bill for £100 drawn on him by R. Smith for their mutual accommodation. The bill is then discounted by Smith at the rate of 5 per cent. per annum, and half the proceeds are handed to Brown. At maturity, Smith sends a cheque to Brown, who then pays the bill. Show the accounts in the books of both parties.

### In Brown's Books.

<i>Dr.</i>		R. SMITH.				<i>Cr.</i>	
Jan. 1	To Bill Payable..	100		Jan. 1	By Cash .. ..	49	7 6
				"	" Discount ..	12	6
				Apr. 3	" Cash .. ..	50	

<i>Dr.</i>		BILLS PAYABLE.				<i>Cr.</i>	
Apr. 4	To Cash .. ..	100		Jan. 1	By R. Smith ..	100	

<i>Dr.</i>		CASH BOOK.				<i>Cr.</i>	
Jan. 1	To R. Smith ..	49	7 6	Apr. 4	By Bill Payable	100	
Apr. 3	" R. Smith ..	50					

<i>Dr.</i>		DISCOUNT ON BILLS.				<i>Cr.</i>	
Jan. 1	To R. Smith ..	12	6				

### In Smith's Books.

<i>Dr.</i>		A. BROWN.				<i>Cr.</i>	
Jan. 1	To Cash .. ..	49	7 6	Jan. 1	By Bill Receivable	100	
"	" Discount ..		12 6				
Apr. 3	" Cash .. ..	50					

<i>Dr.</i>		BILLS RECEIVABLE.				<i>Cr.</i>	
Jan. 1	To A. Brown ..	100				Jan. 1	By Cash .. .. 100

<i>Dr.</i>		CASH BOOK.				<i>Cr.</i>	
Jan. 1	To Bill Receivable	100				Jan. 1	By Dis. on Bills 1 5
						"	" A. Brown .. 49 7 6
						Apr. 3	" A. Brown .. 50

<i>Dr.</i>		DISCOUNT ON BILLS.				<i>Cr.</i>	
Jan. 1	To Cash .. ..	1	5			Jan. 1	By A. Brown .. 12 6

**Note.**—Should the bills be dishonoured or renewed, the entries required will be the same as for ordinary bills.

**ACCOUNT.**—A record in a ledger of the transactions that have taken place with a particular person or thing, as the Goods A/c, R. Smith's A/c, Plant A/c, etc.

**To Balance an Account.**—To write the difference between the two sides of an account on the lesser side, thus making both sides equal, and to bring the difference down to the opposite side. **Example—**

<i>Dr.</i>		R. SMITH.				<i>Cr.</i>	
Jan. 1	To Goods.. ..	40				Jan. 15	By Cash .. .. 25
						" 30	" Balance c/d 15
		40					40
Feb. 1	To Balance b/d	15					

**To Close an Account.**—To transfer the balance elsewhere. For instance, the Bad Debts Account is closed by being transferred to the Profit and Loss A/c. **Example—**

<i>Dr.</i>		BAD DEBTS.				<i>Cr.</i>	
Jan. 15	To A. Peters ..	20				June 30	By Profit and Loss 20

Accounts are also closed by payment in cash or by bills.



**To Open an Account.**—To reserve space in the ledger for an account, and to write the name of the account in the space so reserved, thus—

Dr.	MACHINERY AND PLANT.										Cr.

Accounts are divided into two classes : **personal accounts**, those which relate to persons ; and **impersonal accounts**, those which relate to things.

Personal Accounts are subdivided into two kinds : (1) **Debtors**, persons to whom the firm sells goods, and (2) **Creditors**, persons from whom the firm buys goods.

Impersonal Accounts are subdivided into two kinds : (1) **Real or Property Accounts**, those relating to the various assets of the business, such as Cash, Plant, Goods, Fixtures, etc. ; and (2) **Nominal Accounts**, those referring to the gains and losses of the business, such as Wages, Rent, Rates and Taxes, Discounts Received, etc.

**Note 1.**—The Goods Account is both a real and a nominal account, real in so far as it relates to the goods themselves, and nominal as regards the profit or loss made in selling.

**Note 2.**—The Capital Account and the Drawing Account are personal accounts either of the proprietor of the business or of the partners therein, who are creditors of the firm for the amount of their Capital, and debtors of the firm for the amount of their Drawings.

**ACCOUNT CURRENT.**—A statement in Dr. and Cr. form, setting forth in order of date the various transactions that have taken place either with two persons themselves or on their respective accounts, as between (1) principal and agent, or consignor and consignee, or (2) two merchants trading independently, or (3) a banker and his client ; interest being charged and allowed at an agreed rate.

**By whom Account is Rendered.**—This is done by the person last named, and is really a copy of the latter's ledger account with the person first named. For instance, "*A. Brown in Account Current with R. Smith*" means that R. Smith is rendering the account to A. Brown from his (R. Smith's)

point of view, debiting A. Brown with goods sold, or money paid, to him or on his account, and crediting him with goods bought, or money received, from him or on his account.

**How Days are Counted.**—It is usual to count only one end day or “extreme,” not both, the day on which the transaction took place being generally ignored. In cases, however, where an account current starts with an initial balance, thus: “Jan. 1. To balance,” the opening day *must* be counted, as the balance was really the amount due on the previous day, and otherwise a day’s interest would be lost. To obviate this, it is advisable to bring down the balance of an account current at the same date at which it is carried down, instead of on the day after.

On the Continent, some countries, *e.g.*, Germany and Switzerland, reckon 30 days to each month; other countries, France, Holland, Italy, Austria, etc., reckon each month by its proper number of days; all of them, however, reckon the year as 360 days. This fact should be kept in mind when dealing with foreign accounts current, as the so-called “Continental method” is by no means uniform.

In the case of unmatured acceptances, and also in the case of goods invoiced before the time for payment, the days are counted only from the due date of payment.

**Ways of Reckoning Interest.**—From the point of view of time, interest may be reckoned in different ways—

(a) On each transaction, from the *époque*, or beginning of the period of the account, to the due date of that transaction.

(b) On each transaction, from the due date of that transaction to the end of the period covered by the account.

(c) On the varying balance of the account, from the date of each transaction to the date of the next transaction, allowing for each item debited or credited before its due date.

**Methods of Calculating Interest.**—There are also various methods of calculating the interest itself—

(1) By tables, on each item separately, the two interest columns being then added and the totals of the interest, or merely the balance, carried out into the account.

(2) By products, that is, figures obtained by multiplying the number of pounds in each amount by the number of days it has to run for interest. The product columns are then balanced, and the interest on the balance of product

extended into the account itself. The interest is found by the following formula—

$$\text{Interest} = \frac{\text{Balance of Products} \times \text{Rate}}{365 \text{ (or } 360) \times 100}$$

A more convenient way, however, when the number of days in the year is taken as 365, is to multiply the balance of products by double the rate of interest, and divide the result by 73,000.

(3) By Interest Numbers. This is really only a slight variation of the product method. It is sometimes called the "English method," but it is also extensively used on the Continent. It consists in dividing each product by 100, and in putting down in the account simply the resulting figures, called interest numbers. The number columns are then balanced, and the interest on the balance of numbers entered in the account, the interest being found by the same formula as for the balance of products, except for the division by 100.

**Balance of Principal.**—When interest is reckoned from beginning of the account to due date of each transaction, care must be taken to ascertain the balance of capital or principal, *i.e.*, the difference between the totals of the money columns of the two sides of the statement, and to include interest on this balance for the number of days over which the account extends. The interest must be placed on the opposite side to that on which the balance falls; that is, if the balance is a Dr. balance, the interest will go on the credit side, and *vice versa*.

**Varying Rates of Interest.**—Sometimes there are different rates of interest charged in the same account current, one rate obtaining for a certain time, and being changed afterwards for another rate according to the state of the money market. It may also happen that the rate of interest on the debit items differs from the rate of interest on the credit items. A banker, for instance, might not be willing to allow as high a rate of interest as he himself would charge. And in accounts between merchants of different places there are likewise good reasons sometimes for the terms as regards interest not being reciprocal. In such accounts the product columns on each side must be added and multiplied by their respective rates of interest before being balanced. Interest on this balance can then be found and entered in the usual way.

**Red Ink Interest.**—If any of the items in the account are

not due when it is rendered, the interest for the period in advance of the date to which the account is made up must be inserted in *red* ink, and must also be entered in ordinary ink on the opposite side of the account; or if, as in some cases, there are red ink figures on both sides of the account, then only the balance of the red ink numbers need be entered in ordinary ink on the proper side, debit or credit as the case may be. This interest having thus been previously allowed for, or charged, the red ink figures themselves must be ignored when balancing the product columns. When the account is worked by the *époque* method, there will hardly ever be *any* red ink interest, as interest is reckoned on each transaction right up to the due date of that transaction. Such cases only arise when there is introduced into an account current an old item having a due date anterior to the *époque*.

**Side on which Interest Falls.**—When the days are reckoned by the forward method, *i.e.*, from the due date of each transaction to the end of the period of the account, the interest itself falls on the opposite side to the balance of products or numbers; but when reckoned by the *époque* or backward method, *i.e.*, from the due date of each transaction to the beginning of the period of the account, the interest falls on the same side as the balance of products.

**Fractions of a £.**—Sums under 10s. are generally ignored, and amounts of 10s. and upwards reckoned as another pound.

**Leap Year.**—In the case of Leap Year, one day more is allowed to February; the number of days in the year, however, is still reckoned as 365, *not* 366.

**Example.**—The following transactions took place between A. Brown and R. Smith from Jan. to June, 19..

- Jan. 1. Sold goods to A. Brown, £120.
- Feb. 15. Remittance received from A. Brown, £60.
- Mar. 2. Goods bought of A. Brown, £275.
- „ 3. Accepted A. Brown's draft at 1 month for £100.
- April 11. Cash paid to A. Brown, £100.
- „ 30. Goods invoiced to A. Brown, £146, due end of May.
- May 11. Bought goods from A. Brown, £73.
- „ 31. Sold goods to A. Brown, £123.
- June 15. Bought goods from A. Brown, £155.

Make out an account current to be rendered by R. Smith at 30th June, taking interest into account at the rate of 5 per cent. per annum.



**Example 1.**—Interest calculated, on each item separately, from due date of each transaction to end of period of account.

Dr.

A. BROWN IN ACCOUNT CURRENT WITH R. SMITH.

Cr.

Date.	Particulars.	Days.	Interest.	Amount.	Date.	Particulars.	Days.	Interest.	Amount.
19.. 1	To Goods .. ..	180	2 19 2	120	19..	By Cash .. ..	135	1 2 2	60
Jan. 3	" Bill due 6 Apr. ..	85	1 3 4	100	Feb. 15	" Goods .. ..	120	4 10 5	275
Mar. 11	" Cash .. ..	80	1 1 11	100	Mar. 2	" Goods .. ..	50	10	73
April 11	" Goods due 31 May	30	12	146	May 11	" Goods .. ..	15	6 4	155
" 30	" Goods .. ..	30	10 1	123	June 15	" Interest .. ..			6 8 11
May 31	" Interest .. ..			6 6 6	" 30	" Balance c/d			25 17 7
June 30				595 6 6	" "				595 6 6
June 30	To Balance b/d .. ..			25 17 7					
	E. & O. E.				London				
					30 Jun				
					c 19				
					R. Smith				

Example 2.—Same as No. 1, but interest calculated by balance of products.

Dr.

A. BROWN IN ACCOUNT CURRENT WITH R. SMITH.

Cr.

Date.	Particulars.	Amount.	Days.	Products.	Date.	Particulars.	Amount.	Days.	Products.
19.. 1	To Goods .. ..	120	180	21,600	19.. 15	By Cash .. ..	60	135	8,100
Jan. 3	" Bill due 6 Apr. ..	100	85	8,500	Mar. 2	" Goods .. ..	275	120	33,000
April 11	" Cash .. ..	100	80	8,000	May 11	" Goods .. ..	73	50	3,650
" 30	" Goods due 31 May	146	30	4,380	June 15	" Goods .. ..	155	15	2,325
May 31	" Goods .. ..	123	30	3,690	" 30	" Interest on Balance of Products 905 x 10	2 5		
June 30	" Balance of Products .. ..			905		73,000	25 17 7		
					" 30	" Balance c/d .. ..	589		47,075
June 30	To Balance b/d ..	25 17 7							

Example 3.—Same as No. 2, but interest calculated by balance of interest numbers.

Dr.

A. BROWN IN ACCOUNT CURRENT WITH R. SMITH.

Cr.

Date.	Particulars.	Amount.	Days.	Interest Numbers.	Date.	Particulars.	Amount.	Days.	Interest Numbers.
19.. 1	To Goods .. ..	120	180	216	19..	By Cash .. ..	60	135	81
Jan. 3	" Bill due 6 April	100	85	85	Feb. 15	" Goods .. ..	275	120	330
Mar. 11	" Cash .. ..	100	80	80	Mar. 2	" Goods .. ..	73	50	37
April 11	" Goods due 31 May	146	30	44	May 11	" Goods .. ..	155	15	23
" 30	" Goods .. ..	123	30	37	June 15	" Interest on Balance			
May 31	" Balance of Nos.			9	" 30	of Nos. 9 × 10	2	5	
June 30					" "	730			
					" "	" Balance c/d ..	25	17	7
		589		471			589		471
June 30	To Balance b/d ..	25	17	7					

Example 4.—Same as No. 2, but interest calculated from beginning of period of account to due date of each transaction.

Dr. A. BROWN IN ACCOUNT CURRENT WITH R. SMITH. Cr.

Date.	Particulars.	Amount.	Days.	Products.	Date.	Particulars.	Amount.	Days.	Products.
19.. 1	To Goods .. ..	120	—	<i>époque</i>	19.. Feb. 15	By Cash	60	45	2,700
Jan. 3	" Bill due 6 April	100	95	9,500	Mar. 2	" Goods	275	60	16,500
April 11	" Cash .. ..	100	100	10,000	May 11	" Goods	73	130	9,490
" 30	" Goods due 31 May	146	150	21,900	June 15	" Goods	155	165	25,575
May 31	" Goods .. ..	123	150	18,450	" 30	" Balance of Principal, £26		180	4,680
					" "	" Balance of Products			905
					" "	" Interest on Balance of Products	2 5		
						905 x 10			
						<u>73,000</u>			
					" "	" Balance c/d ..	25 17 7		
							589		59,850
June 30	To Balance b/d	25 17 7		59,850					



**Example 5.**—Interest calculated on the varying balance of the account from one transaction to the next.

A. BROWN IN ACCOUNT CURRENT WITH R. SMITH.

Date.	Particulars.		Amount.	Due Date.	Days.	Interest Numbers. Dr. Cr.
19..						
Jan. 1	To Goods .. .. .	Dr.	120		45	54
Feb. 15	By Cash .. .. .	Cr.	60			
Mar. 2	" Goods .. .. .	Dr.	60		15	9
	" " .. .. .	Cr.	275			
" 3	To Bill Payable .. .. .	Cr.	215		1	2
		Dr.	100	6 April .. .. .	34	34
April 11	" Cash .. .. .	Cr.	115		39	45
		Dr.	100			
" 30	" Goods .. .. .	Cr.	15		19	3
		Dr.	146	31 May .. .. .	31	45
May 11	By Goods .. .. .	Dr.	131		11	14
		Cr.	73			
" 31	To Goods .. .. .	Dr.	58		20	12
		Dr.	123			
June 15	By Goods .. .. .	Dr.	181		15	27
		Cr.	155			
" 30	" Interest on Balance of Nos. $\left\{ \begin{array}{l} 9 \times 10 \\ 730 \end{array} \right\}$ .. .. .	Dr.	26		15	4
		Cr.	2 5	Balance of Numbers	9	9
		Dr.	£25 17 7			129 129

Example 6.—Interest calculated by balance of products, but  $4\frac{1}{2}$  per cent. charged on debit items, and 5 per cent. allowed on credit items.

Dr.

A. BROWN IN ACCOUNT CURRENT WITH R. SMITH.

Cr.

Date.	Particulars.	Amount.	Days.	Products.	Date.	Particulars.	Amount.	Days.	Products.
19..					19..				
Jan. 1	To Goods .. ..	120	180	21,600	Feb. 15	By Cash .. ..	60	135	8,100
Mar. 3	" Bill due 6 April ..	100	85	8,500	Mar. 2	" Goods .. ..	275	120	33,000
April 11	" Cash .. ..	100	80	8,000	May 11	" Goods .. ..	73	50	3,650
" 30	" Goods due 31 May ..	146	30	4,380	June 15	" Goods .. ..	155	15	2,325
May 31	" Goods .. ..	123	30	3,690					
				46,170					47,075
				9					10
June 30	" Balance of Products			415,530	" 30	" Interest on Balance of Products			470,750
				55,220		55,220	15	1	
						73,000			
					" "	" Balance c/d ..	25	411	
							589		470,750
June 30	To Balance b/d .. ..	25 411							

Example 7.—Same as No. 2, except for variation in due date of May 31st item, in order to illustrate Red Ink interest.

Dr.

A. BROWN IN ACCOUNT CURRENT WITH R. SMITH.

Cr.

Date.	Particulars.	Amount.	Days.	Products.	Date.	Particulars.	Amount.	Days.	Products.
19..					19..				
Jan. 1	To Goods .. ..	120	180	21,600	Feb. 15	By Cash .. ..	60	135	8,100
Mar. 3	" Bill due 6 April ..	100	85	8,500	Mar. 2	" Goods .. ..	275	120	33,000
April 11	" Cash .. ..	100	80	8,000	May 11	" Goods .. ..	73	50	3,650
" 30	" Goods due 31 May..	146	30	4,380	June 15	" Goods .. ..	155	15	2,325
May 31	" Goods due 31 Aug.	123	62	7,626	" 30	" Interest in red heavy typeas per contra			7,626
June 30	" Balance of Products			12,221	" 30	" Interest on Balance of Products			
						12,221 × 10	113	5	
						73,000			
					" 30	" Balance c/d ..	24	6	7
June 30	To Balance b/d .. ..	589		54,701			589		54,701
		24	6	7					

Note.—A. Brown ought not to settle the May 31st item until the 31st August. He is apparently being made to settle it on the 30th June, that is, 62 days before the proper time. He must, therefore, be credited with interest on the money for 62 days.

**ACCOUNT SALES.**—A document showing the gross and net proceeds of a consignment of goods sold by one person for the account and risk of another, and detailing all the expenses and charges in connection with the sale. (See also **CONSIGNMENT.**)

**Example—**

Account Sales of 40 cases of Fancy Goods *ex. ss. Ganges*, sold by Smith & Son of Melbourne for the account and risk of Messrs. Merchant & Co., London.

M. & Co. L.	20	Cases	Fancy Goods .. .. .	£15	300	
1-20						
M. & Co. L.	20	Cases	" " .. .. .	£12	240	
21-40						
			Deduct—		540	
			Cartage	5 0 0		
			Storage	7 10 0		
			Insurance	10 0 0		
			Commission			
			5% £540	27 0 0		
					49 10	
					490 10	
			Less Advance.. ..		200	
(Sight	E. & O. E.	draft for	£290 10 0 herewith.)		£290 10	
				Smith & Son		
				Melbourne		
				14 Jan. 19..		

**Note.**—Where, as in some cases, the consignee pays Freight and Insurance outwards, these two items would also appear on the Account Sales.

**ACTS OF BANKRUPTCY.**—An act or default on the part of a debtor deemed to be evidence of his insolvency, and one which enables a creditor to present a petition against him in the Bankruptcy Court. A debtor is said (Bankruptcy Act, 1914) to commit an act of bankruptcy in the following cases—

(1) If in England or elsewhere he makes a conveyance or assignment of his property to a trustee or trustees for the benefit of his creditors generally.



(2) If in England or elsewhere he makes a fraudulent conveyance, gift, delivery, or transfer of his property or any part thereof.

(3) If in England or elsewhere he makes any conveyance or transfer of his property, or any part thereof, or creates any charge thereon which would, under this or any other Act, be void as a fraudulent preference if he were adjudged bankrupt.

(4) If with intent to defeat or delay his creditors he does any of the following things, namely, departs out of England, or being out of England remains out of England, or departs from his dwelling-house, or otherwise absents himself, or begins to keep house.

(5) If execution is issued against him by seizure of his goods under process in any action in any court, or in any civil proceeding in the High Court, and the goods have been either sold or held by the sheriff for twenty-one days.

(6) If he files in the court a declaration of his inability to pay his debts, or presents a bankruptcy petition against himself.

(7) If a creditor has obtained a final judgment against him for any amount, and execution thereon not having been stayed, has served on him in England, or, by leave of the court, elsewhere, a bankruptcy notice under the Act, requiring him to pay the judgment debt in accordance with the terms of the judgment, or to secure or compound for it to the satisfaction of the creditor or the court, and he does not within seven days after service of the notice (or an appointed time if the notice is served abroad), either comply with the requirements of the notice or satisfy the court that he has a counterclaim, set-off, or cross demand which equals or exceeds the amount of the judgment debt, and which he could not set up in the action in which the judgment was obtained.

(8) If the debtor gives notice to any of his creditors, either verbally or in writing, that he has suspended, or that he is about to suspend payment of his debts.

**ADDITIONS TO PLANT AND MACHINERY.**—Extra plant and machinery bought during the year. Some firms do not write depreciation off this, but only off the amount of the plant and machinery as at the beginning of the year.

Other firms, however, write off a proportionate amount. Thus, if the new plant had been purchased only three months before the close of the year, then only one-quarter of the annual depreciation rate would be written off the additions. The Balance Sheet generally shows how the matter has been dealt with. Thus, in the **first case**, we should have—

	£	s.	d.	£	s.	d.
Plant and Machinery .. ..	5,000	0	0			
Less depreciation .. ..	500	0	0			
	<hr/>					
	4,500	0	0			
Additions during year .. ..	250	0	0			
	<hr/>			4,750	0	0

and in the **second case**—

Plant and Machinery .. ..	5,000	0	0			
Additions during year .. ..	250	0	0			
	<hr/>					
	5,250	0	0			
Less depreciation .. ..	506	5	0			
	<hr/>			4,743	15	0

**ADEMPMENT.**—The disposing by the testator of the subject matter of a legacy during the testator's lifetime. It only refers to specific legacies, *i.e.*, some special article of the deceased's property. In this case the legatee loses his legacy altogether. (See **LEGACIES**.)

**ADJUSTMENT ACCOUNT.**—An extra account inserted in a ledger for the double purpose of proving the ledger and of making it self-balancing. It is merely a record of the transactions already posted in the particular ledger, only in a summarised form instead of in detail, and having the debits and credits transposed. The balance of the adjustment account must be equal to the sum of the other balances in the same ledger, thus proving the ledger. It must also be on the opposite side, so that when a trial balance is extracted the total of the debits will equal the total of the credits, thus making the ledger self-balancing.

The principle underlying the adjustment account is proof by means of totals, based on the axiom that the whole is equal to the sum of all its parts. Suppose, for example, we have the following debtors in our ledger, and that the under-mentioned sales of goods, payments, returns, etc., take place,

the balances remaining in each account would be as stated at the side—

Debtors.	Goods Sold.	Goods Returned.	Money Received.	Discount Allowed.	Bills Received.	Balance Owing.
	£	£	£	£	£	£.
A	106	10	57	3	—	36
B	78	—	38	2	—	38
C	60	—	—	—	35	25
D	45	2	30	—	—	13
E	36	—	19	1	—	16
F	46	—	—	—	20	26
G	92	—	76	4	—	12
H	23	—	10	—	—	13
	—	—	—	—	—	—
	486	12	230	10	55	179
	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>

The above transactions would, of course, be posted separately to the individual accounts of each of the debtors named. Now let us post the same transactions in total or summary into *one* Debtors' Account and balance it. We should then have the following—

Dr.

## TOTAL DEBTORS' ACCOUNT.

Cr.

To Goods ..	486			By Cash... ..	230		
				„ Discount .. ..	10		
				„ Returns .. ..	12		
				„ Bills Receivable	55		
				„ Balance c/d ..	179		
		486				486	
To Balance b/d	179						

The balance of this total account is equal to the sum of the separate balances, thus proving the posting, addition, and subtraction in the ledger to be correct.

Adjustment accounts are constructed for the Bought Ledger and Sales Ledger respectively, and also for each of their subdivisions if there are several ledgers.

**Example** of an Adjustment Account for the Bought Ledger—

<i>Dr.</i>		BOUGHT LEDGER ADJUSTMENT ACCOUNT.										<i>Cr.</i>	
19..													
June	30	To Cash.. ..	348	3	6	19..	June	1	By Balance (total				
"	"	" Discount ..	18	6	6	"	June	1	of Creditors				
"	"	" Bills Payable ..	150			"	30	" Purchases ..	2,000	6	8		
"	"	" Returns and							as at this date)				
"	"	Allowances }	34	10	6								
"	"	" Balance c/d ..	2,074	17	4					625	11	2	
			2,625	17	10								
										2,625	17	10	
						July	1	By Balance b/d ..	2,074	17	4		

The above account would appear in the **General Ledger**. In the **Bought Ledger** there would be a corresponding account, but having the items on the opposite sides, in order to make a double entry of the two accounts, thus—

<i>Dr.</i>		GENERAL LEDGER ADJUSTMENT ACCOUNT.										<i>Cr.</i>	
19..						19..							
June	1	To Balance (total				June	30	By Cash .. ..	348	3	6		
		of Creditors as	2,000	6	8	"	"	" Discount.. ..	18	6	6		
		at this date)				"	"	" Bills Payable	150				
	30	" Purchases ..	625	11	2	"	"	" Returns and					
						"	"	Allowances }	34	10	6		
						"	"	" Balance c/d ..	2,074	17	4		
			2,625	17	10					2,625	17	10	
July	1	To Balance b/d ..	2,074	17	4								

The above balance would, of course, be equal to the sum of the separate Bought Ledger balances, and thus prove the Bought Ledger. Special items, such as transfers of contra accounts, cancelled bills, interest on renewed bills or on overdue accounts, etc., which have been posted direct from the journal, and debited or credited to any of the personal accounts in the Bought Ledger, must also be debited and credited to these Adjustment accounts.





Accounts relative to the **Bought Ledger** would, if required, be as follows—

JOURNAL.			Dr.			Cr.		
19..		Fol.						
June 30	General Ledger Adjustment A/c ..	BL	625	11	2			
	To Bought Ledger Adjustment A/c	GL				625	11	2
	Total credit purchases for month as per Purchases Book							
30	Bought Ledger Adjustment A/c ..	GL	348	3	6			
	To General Ledger Adjustment A/c	BL				348	3	6
	Cash paid to Creditors for month, as per Cash Book.							
30	Bought Ledger Adjustment A/c ..	GL	18	6	6			
	To General Ledger Adjustment A/c	BL				18	6	6
	Discount allowed by creditors for month, as per Cash Book.							
30	Bought Ledger Adjustment A/c ..	GL	150					
	To General Ledger Adjustment A/c	BL				150		
	Acceptances for month, as per Bills Payable Book.							
30	Bought Ledger Adjustment A/c ..	GL	34	10	6			
	To General Ledger Adjustment A/c	BL				34	10	6
	Returns and allowances for month, as per Returns Outwards Book.							

**Note 1.**—The opening balances of the two adjustment accounts would not need to be journalised, as they would already appear in the accounts, being brought down from the previous month.

**Note 2.**—Similar entries to those above would also have to be made for all items that had been entered in the Bought Ledger through the medium of the Journal only.

The journal entries, if necessary, for raising the Adjustment Accounts pertaining to the **Sales Ledger** would be the following—

JOURNAL.			Dr.			Cr.		
19..								
June 30	Sales Ledger Adjustment A/c ....	GL	2,620	11	2			
	To General Ledger Adjustment A/c	SL				2,620	11	2
	Total credit sales for month, as per Sales Book							
30	Sales Ledger Adjustment A/c ..	GL	56	10	9			
	To General Ledger Adjustment A/c	SL				56	10	9
	Dishonoured bills and charges for month, as per Cash Book.							
30	General Ledger Adjustment A/c ..	SL	1,947	10				
	To Sales Ledger Adjustment A/c	GL				1,947	10	
	Cash received from Debtors for month, as per Cash Book.							

JOURNAL—continued.			Dr	Cr
June 30	General Ledger Adjustment A/c ..	SL	102 10	
	To Sales Ledger Adjustment A/c	GL		102 10
	Discount allowed to Debtors for month, as per Cash Book.			
30	General Ledger Adjustment A/c ..	SL	250 67	
	To Sales Ledger Adjustment A/c	GL		250 67
	Bills received from Debtors for month, as per Bills Receivable Book			
30	General Ledger Adjustment A/c ..	SL	78 11 5	
	To Sales Ledger Adjustment A/c	GL		78 11 5
	Returns and allowances for month, as per Returns Inwards Book.			
30	General Ledger Adjustment A/c ..	SL	121 9 4	
	To Sales Ledger Adjustment A/c	GL		121 9 4
	Bad debts written off for month, as per Bad Debts A/c.			

**Note 1.**—The opening balances of the two adjustment accounts would not require journalising, as, being brought down from the previous month, they would already exist in the ledger.

**Note 2.**—Additional entries, similar to the above, would also have to be made for those items which have gone into the Sales Ledger direct from the Journal or the Petty Cash Book.

**ADJUSTMENTS AT BALANCING TIME.**—These include interest on capital, depreciation of assets, reserves for bad debts, discounts, and outstanding liabilities, accruing income and expenses, and unexpired values of payments in advance. The following are typical instances, and figures have been supposed in each case in order to illustrate the Journal entries necessary to bring them to account—

- (1) Interest on Partners' Capital at 5 per cent. per annum,  
A. Brown, £2,000; R. Smith, £1,500.
- (2) Depreciation—  
Plant and Machinery £5,000, at 10 per cent. per annum.  
Furniture and Fixtures £250, at 5 per cent. per annum.
- (3) Reserve for Bad Debts, 5 per cent. of Sundry Debtors  
£3,750.
- (4) Reserve for Discount—  
On Debtors, 5 per cent.  
On Creditors,  $2\frac{1}{2}$  per cent. of £1,520.
- (5) Reserve for Audit Fee £100, Income Tax £125.
- (6) Rent due from Sub-tenants, £26.
- (7) Proportion of Rent, Rates, etc., accrued due £35,  
Wages £15, Salaries £25.

(8) Unexpired values of Telephone Rent £20, Trade Subscriptions £3, Fire Insurance Premium £10.

JOURNAL.				Dr.		Cr.	
19..							
Dec. 31	Interest on Capital .. ..	175					
	To A. Brown (Capital A/c)					100	
	5% on £2,000 for one year						
	To R. Smith (Capital A/c) .. ..					75	
	5% on £1,500 for one year						
31	Depreciation .. ..	512	10				
	To Plant and Machinery .. ..					500	
	10% on £5,000 for one year						
	To Furniture and Fixtures .. ..					12	10
	5% on £250 for one year						
31	Profit and Loss A/c .. ..	187	10				
	To Bad Debts Reserve .. ..					187	10
	5% of Sundry Debtors, £3,750						
31	Profit and Loss A/c .. ..	178	2 6				
	To Reserve for Discount on Debtors					178	2 6
	5% of good debts, £3,562 10s.						
31	Reserve for Discount on Creditors ..	38					
	To Profit and Loss A/c .. ..					38	
	2½% on £1,520 .. ..						
31	Profit and Loss A/c .. ..	225					
	To Reserve for Audit Fee .. ..					100	
	„ Reserve for Income Tax .. ..					125	
31	Sundry Debtors for Rent .. ..	26					
	To Rents Receivable A/c .. ..					26	
	Rent accrued to date						
31	Rent, Rates, etc. .. ..	35					
	Wages .. ..	15					
	Salaries .. ..	25					
	To Outstanding Expenses A/c .. ..					75	
	Expenses accrued to date						
*31	Telephone Rent prepaid .. ..	20					
	Trade Subscriptions prepaid .. ..	3					
	Fire Insurance .. ..	10					
	To Profit and Loss A/c .. ..					33	
	Apportionment of above to date						

\* These last items can also be adjusted by crediting these amounts in their respective accounts, and bringing them down as balances for the next year. Thus only the proper amount of each item applicable to the current year would be carried to Profit and Loss. This way is more usual now in business, the other method being better suited to examination work when insufficient information is given to enable them to be treated otherwise.



**ADMINISTRATION ORDER.**—In small cases of insolvency, where the total liabilities of the debtor do not exceed £50, bankruptcy proceedings are not possible, and the court is empowered to make an Administration Order, and compel the debtor to pay the whole or a portion of his debts either at once, or by stated instalments, out of his earnings.

**ADMINISTRATOR.**—The person appointed by the Court of Probate to administer the estate of a deceased person who died leaving no will.

**ADVANCEMENT.**—A payment by a parent, during life-time, to a child of a portion of what the child would receive, as heir or beneficiary, at the death of that parent.

**ADVANCES ON CONSIGNMENT.**—When a large quantity of goods is shipped on consignment, it is usual for the consignee to remit to the consignor a certain sum of money by way of security, or to accept a bill drawn on him for the same purpose. In the case of a Consignment Outwards, the advance must not be put to the credit of the Consignment account, as it is no part of the proceeds of it, but should be posted to the credit of the personal account of the consignee. It thus figures in the books as a liability; and this is the correct position, for if the consignee does not sell the goods, the money will have to be repaid to him. On the Balance Sheet the advance is sometimes shown as a liability, and sometimes also as a deduction from the Consignment on the asset side, the reason being that in the event of the consignee selling the goods, the advance will count as part payment of the amount due.

As regards a Consignment Inwards, the advance will appear in the books as an asset, an amount due to the consignee from the consignor should the former be unable to sell the goods.

The term is also applied to the loans obtained from bankers on large consignments. In these cases the interest paid on the loans is a proper charge against the profits of the consignment.

**ADVERTISEMENTS.**—In newspaper accounts these are a source of income, and should be so treated in the trading account. At balancing time an adjustment will require to be made; those advertisements which have been paid for, but have not yet appeared, must be deducted from the current Advertisements account, brought down to the next period, and be shown on the Balance Sheet as a liability.

**ADVERTISING.**—Where the money spent for this purpose amounts to a large sum in the course of a year, a separate account is opened for it, and the total carried, at balancing time, to the Profit and Loss Account.

**ADVERTISING SUSPENSE ACCOUNT.**—A contract is sometimes entered into for a three or four years' course of advertising, as much cheaper rates can be obtained than for one year. The money thus spent is posted to an Advertising Suspense Account, so that it shall not all be charged against the first year's profits, but apportioned equally between the different years. The balance not written off in any year is carried forward to the next period, and appears on the current Balance Sheet on the assets side.

**AGENCY EXPENSES.**—In some cases these are very large and numerous, necessitating a separate subsidiary account, which is closed to Profit and Loss at the end of the financial period in the usual way.

**AGENTS' ACCOUNTS.**—Goods are sometimes sent, for sale, to agents in different parts of the world. And where it is not desired to see the profit on each separate shipment, the transactions are not dealt with on the ordinary consignment basis. The goods, when dispatched, instead of being debited to a Consignment Account, are simply entered in an Agents' Memorandum book, any expenses, such as insurance, freight, etc., being charged to their respective ledger accounts. The agents make returns of sales and expenses. The Sales Account is credited and the agents debited with the value of the goods sold; the expenses are debited to their proper nominal accounts, and the agents credited with the total. The balances of the respective agents' accounts then show the amount to be remitted by them. The stock which the agents hold at balancing time is added to the stock at home for the purpose of the Trading Account, but shown on the Balance Sheet as "Stock in Agents' hands." In some cases the sale is booked up to the customer, as if the firm had made it, and the firm itself collects the money, an account being opened for the agent merely for his expenses and commission.

**ALLONGE.**—A slip of paper pasted on the back of a bill of exchange, in order to make room for further indorsements when the usual space is already filled. The first person to sign afterwards must write his signature partly on the bill and partly on the allonge, so that the two cannot be

separated, otherwise the first signature on the allonge might be fraudulently attached to a bill of a larger amount.

**ALLOTMENT ACCOUNT.**—(See COMPANY.)

**ALLOTMENT, LETTER OF.**—(See COMPANY.)

**ALLOWANCES.**—These are deductions permitted from an account for a variety of reasons, such as short weight, inferior quality of goods supplied, broken or damaged articles, overcharge in price, etc. These allowances are very often made to prevent the goods being returned, and are, therefore, properly deducted from the purchases or sales. Sometimes a separate account is opened for them, but it is more usual to find the allowances grouped, with the returns, as “Purchase Returns and Allowances,” “Sales Returns and Allowances.” These allowances should never be carried to the Profit and Loss Account, but should be transferred direct to the Trading Account, as they affect the *gross* profit, increasing or decreasing it as the case may be.

**ALTERATIONS AND IMPROVEMENTS TO PREMISES.**

—This item is usually taken to mean expenditure of a capital nature, something materially adding to the value of the premises, or considerably increasing its earning capacity, as opposed to mere repairs, which would be charged to Revenue or Profit and Loss. For instance, a man may own a house and have it converted into a shop; a merchant may add a new block to his present premises, or the existing buildings may be pulled down and larger ones built in their place. The cost of the improvements and alterations is sometimes wholly capitalised, *i.e.*, added to the Premises Account; sometimes only a part is capitalised, the balance being written off as a loss, at once if a small amount, but by annual instalments if a large one. Such apportionment depends very largely on the particular circumstances of each case, and no general rule can be laid down.

**AMORTISATION.**—The redemption of loans by means of a sinking fund; also the gradual writing off of items of capital expenditure.

**AMORTISATION FUND.**—Another term for sinking fund. (See SINKING FUND, REPAYMENT OF DEBENTURES.)

**AND CO.—**

**AND CO., NOT NEGOTIABLE.—**

**AND CO., NOT NEGOTIABLE, A/C PAYEE ONLY.—**

} These

are three of the most common crossings which appear on cheques, thus—

& Co.	& Co. not negotiable.	& Co. not negotiable. A/c payee only.
-------	--------------------------	---

The object of crossing a cheque is to prevent its being cashed over the counter by any one who might fraudulently obtain possession of it. When crossed, it can only be presented by a banker. **“Not negotiable”** is added to the cheque in order to protect the owner against loss by theft. It does not prevent the transfer of the cheque, but it gives the holder no better title than the person had from whom he received it. If the cheque turns out to have been stolen, then the holder can be made to restore it to the rightful owner, even though the holder may have given value for it. **A/c payee only** is sometimes written across a cheque, the object being that the collecting banker is to place the proceeds to the credit of the payee’s account. Although there is no provision in the Bills of Exchange Act regarding the words “account payee” in connection with a crossing, it has been held that to disregard a direction of that kind, if the banker had information which might lead him to think that the account into which he was paying the cheque was not the payee’s account, would be negligence.

**ANNUAL SUMMARY OF CAPITAL AND SHARES.—**

Section 26 of the Companies (Consolidation) Act, 1908, enacts—

- (1) Every company having a share capital shall once at least in every year make a list of all persons who, on the fourteenth day after the first or only ordinary general meeting in the year, are members of the company, and of all persons who have ceased to be members since the date of the last return or (in the case of the first return) of the incorporation of the company.
- (2) The list must state the names, addresses, and occupations of all the past and present members therein mentioned, and the number of shares held by each of the existing members at the date of the return, specifying shares transferred since the date of the last return or (in the case of the first return) of the incorporation of the company by persons who are still members and have ceased to be members respectively

and the dates of registration of the transfers, and must contain a summary distinguishing between shares issued for cash and shares issued as fully or partly paid-up otherwise than in cash, and specifying the following particulars—

- (a) The amount of the share capital of the company, and the number of the shares into which it is divided ;
  - (b) The number of shares taken from the commencement of the company up to the date of the return ;
  - (c) The amount called up on each share ;
  - (d) The total amount of calls received ;
  - (e) The total amount of calls unpaid ;
  - (f) The total amount of the sums (if any) paid by way of commission in respect of any shares or debentures, or allowed by way of discount in respect of any debentures, since the date of the last return ;
  - (g) The total number of shares forfeited ;
  - (h) The total amount of shares or stock for which share warrants are outstanding at the date of the return ;
  - (i) The total amount of share warrants issued and surrendered respectively since the date of the last return ;
  - (k) The number of shares or amount of stock comprised in each share warrant ;
  - (l) The names and addresses of the persons who at the date of the return are the directors of the company, or occupy the position of directors, by whatever name called<sup>1</sup>; and
  - (m) The total amount of debt due from the company in respect of all mortgages and charges which are required (or, in the case of a company registered in Scotland, which, if the company had been registered in England, would be required) to be registered with the registrar of companies under this Act, or which would have been required so to be registered if created after the first day of July, nineteen hundred and eight.
- (3) The summary must also (except where the company is a private company) include a statement, made up to such date as may be specified in the statement, in the form of a balance sheet, audited by the company's auditors, and containing a summary of its share capital, its liabilities, and its assets, giving such particulars as will disclose the general nature of those liabilities and assets, and how the values of the fixed assets have been arrived at, but the balance sheet need not include a statement of profit and loss.

<sup>1</sup> The Companies (Particulars of Directors) Act, 1917, makes it obligatory to disclose particulars respecting nationality of directors.



(4) The above list and summary must be contained in a separate part of the register of members, and must be completed within seven days after the fourteenth day aforesaid, and the company must forthwith forward to the registrar of companies a copy signed by the manager or by the secretary of the company.

(5) If a company makes default in complying with the requirements of this section, it shall be liable to a fine not exceeding £5 for every day during which the default continues and every director and manager of the company who knowingly and wilfully authorises or permits the default shall be liable to the like penalty.

"THE COMPANIES ACTS; 1908 to 1917."

FORM E.

SUMMARY OF SHARE CAPITAL AND SHARES  
OF

THE COMPANY, LIMITED,

made up to the day of , 19..

(Being the Fourteenth Day after the First Ordinary General Meeting in 19..)

Nominal Share Capital, £	, divided into {	Shares of £	each.
Total number of Shares taken up <sup>1</sup> to the	day of	{	Shares of £
(which number must agree with the total shown in the list as held by existing members)	.. .. .		
Number of Shares issued subject to payment wholly in cash	.. .. .	{	Shares of £
Number of Shares issued as fully paid up otherwise than in cash	.. .. .		
Number of Shares issued as partly paid up to the extent of £ per Share otherwise than in cash	.. .. .	{	Shares of £
	.. .. .		
<sup>2</sup> There has been called up on each of	Shares	£	
<sup>3</sup> " " "	"	£	
<sup>3</sup> " " "	"	£	
<sup>3</sup> Total amount of Calls received, including payments on application and allotment	.. .. .	{	£
Total amount (if any) agreed to be considered as paid on Shares, which have been issued as fully paid otherwise than in cash	.. .. .		
Total amount (if any) agreed to be considered as paid on Shares which have been issued as partly paid up to the extent of £ per share	.. .. .	{	£
Total amount of Calls unpaid	.. .. .		
Total amount (if any) of sums paid by way of Commission in respect of Shares or Debentures or allowed by way of Discount since the date of last summary	.. .. .	{	£
Total amount (if any) paid on <sup>4</sup>	Shares forfeited		
			£

A 5s.  
Registration  
Stamp  
must be  
impressed h

Total amount of Shares and Stock for which Share Warrants to Bearer are outstanding .. ..	}	£
Total amount of Share Warrants to Bearer issued and surrendered respectively since date of last summary .. ..		
Number of Shares or amount of Stock comprised in each Share Warrant .. ..	}	£
Total amount of Debt due from the Company in respect of all Mortgages and Charges which are required (or, in the case of a Company registered in Scotland, which, if the Company had been registered in England, would be required), to be registered with the Registrar of Companies, or which would require registration if created after the first day of July, 1908.. ..		

<sup>1</sup> Where there are Shares of different kinds or amounts (e.g., Preference and Ordinary, or £10 and £5) state the numbers and nominal values separately.

<sup>2</sup> Where various amounts have been called, or there are Shares of different kinds, state them separately.

<sup>3</sup> Include what has been received on forfeited, as well as on existing Shares.

<sup>4</sup> State the aggregate number of Shares forfeited (if any).

*The Return must be signed at the End, by the Manager or Secretary of the Company.*

PRESENTED FOR FILING BY.....

### THE X Y Z COMPANY, LIMITED.

STATEMENT in the form of a Balance Sheet made up to the day of .., 19.., containing the particulars of the Capital, Liabilities, and Assets of the Company.

CAPITAL AND LIABILITIES.			ASSETS.		
Nominal Capital—			Freehold Land (at cost less depreciation) ..	30,000	
100,000 £1 Ordinary Shares			Buildings (at cost less depreciation) ..	50,000	
100,000 £1 6% Preference Shares			Goodwill (at cost) ..	20,000	
£200,000			Fixed Plant and Machinery (at cost less depreciation) ..	55,000	
Issued Capital—			Loose Plant and Tools (as valued by the Company's managers) ..	20,000	
100,000 Ord. Shares £1 .. .. 100,000			Stock-in-trade (at cost as valued and certified by Company's managers) ..	25,000	
100,000 Pref. Shares £1 .. 100,000			Sundry Debtors (less Reserve for Bad Debts and Discounts) ..	22,000	
200,000			Cash in hand and at bank .. ..	10,500	
less calls unpaid .. 500					
199,500					
5% Mortgage Debentures—					
200 bonds of £100 each .. ..	20,000				
Sundry Creditors ..	8,000				
Profit and Loss A/c—					
Balance thereof ..	5,000				
£ 232,500			£ 232,500		

(Signed).....

Auditors to the Co.

Note.—This statement is not required in the case of a private company.

DICTIONARY OF BOOK-KEEPING

[illegible]

<sup>1</sup> The aggregate number of shares held, and not the distinctive numbers, must be stated, and the column must be added up throughout so as to make one total to agree with that stated in the Summary to have been taken up.

<sup>2</sup> When the Shares are of different classes these columns may be subdivided so that the number of each class held or transferred may be shown separately.

<sup>3</sup> The date of registration of each transfer should be given as well as the number of shares transferred on each date. The particulars should be placed opposite the name of the transferor and not opposite that of the transferee, but the name of the transferee may be inserted in the "Remarks" column immediately opposite the particulars of each transfer.

NAMES of the Persons who are the Directors of the  
 day of 19..

Company, Limited, on the

Present Christian Name or Names and Surname.	Any former Christian Name or Names and Surnames.	Nation- ality.	Nationality of Origin (if other than the present nationality).	Usual Residence.	Occupation.

(Signature) .....  
 (State whether Manager or Secretary).....

Date.....

**ANNUITIES.**—(See LIFE and TERMINABLE ANNUITIES.)

**ANNUITY SYSTEM.**—(See DEPRECIATION.)

**ANNUITY TO EMPLOYEE.**—This item is sometimes found in accounts, and is, of course, charged against the profits. It is not, however, allowed as a deduction from the profits for the purpose of income tax assessment.

**APPLICATION AND ALLOTMENT ACCOUNT.**—(See COMPANY.)

**APPLICATION AND ALLOTMENT BOOK.**—(See COMPANY.)

**APPORTIONMENT.**—(See SUSPENSE ACCOUNT; also ADJUSTMENTS AT BALANCING TIME.)

**APPORTIONMENT IN EXECUTORSHIP ACCOUNTS.**—

The Apportionment Act, 1870, provides that all rents, annuities, dividends, and other periodical payments in the nature of income shall, like interest on money lent, be considered as accruing from day to day, and shall be apportionable in respect of time accordingly. This means that rents, interest, dividends, profits, etc., must be divided between the estate and the beneficiary, that portion accruing to and including date of death being regarded as capital, *i.e.*, belonging to the Estate, and the portion accruing after death being regarded as income, *i.e.*, belonging to the beneficiary. For examples of these apportionments, see under EXECUTORSHIP ACCOUNTS.

The following are not apportionable: (1) The profits of a private partnership, (2) the profits from the voyage of a single ship privately owned, (3) rent payable in advance.

Interim Dividends are regarded as being received on account of the whole dividend for the year, and when the final dividend is received, the rate for the year is ascertained and the apportionment made on that basis. Interim Dividends received before death, however, are capital, and cannot be altered, even though the apportionment may show that capital has received more than its proper share of the dividend.

With reference to the arrears of dividend on cumulative preference shares, it all depends on the period covered by the Profit and Loss Account, out of the profits of which the dividends are declared payable. If this period is prior to death, the dividends are all capital; if subsequent to death, the dividends are all income; if it is the current period at the date of death, the dividend is apportionable between capital and income.



A quinquennial bonus or division of profits on shares in a life assurance company is apportionable.

Executorship expenses must also be apportioned, those incurred in realising and protecting the estate being chargeable to capital, those connected with the carrying on of the estate being chargeable against income.

The property of a deceased person's estate sometimes consists of loans on mortgage; and if, owing to default in payment of interest, the security is realised and a loss sustained, such loss must be apportioned between principal and interest, both abating proportionately.

**Example of apportionment of loss on realisation of a mortgage security—**

Part of the estate of a deceased testator consisted of a loan on mortgage of £2,000 at 6 per cent. Interest was regularly paid up to 30th June, 19... The September quarter's interest not being forthcoming, the trustees entered into possession. On the 30th June, 19..., the property was sold, and realised £1,560, the expenses of sale amounting to £60. Show ledger account dealing with the apportionment between income and capital of the loss sustained. (See next page.)

The rule laid down by the courts in *re Atkinson* was that the money received should be apportioned between capital and income in the proportion which the arrears of interest bore to the sum on loan.

**APPRECIATION OF ASSETS.**—Assets sometimes appreciate, that is, rise in value, and this increase in worth is credited to Revenue, or Profit and Loss, and added to the capital value of the asset. For example, models worth £500 may be re-valued at £600, and there would thus be an amount of £100 to be added to the profits. Investments sometimes increase in value, and a corresponding amount is accordingly taken credit for in the Profit and Loss Account. In this latter case, however, the appreciation, if taken into account at all—and many accountants deem it inadvisable—is better placed to the credit of a special Reserve Account, and not treated as a profit, owing to the rapid market fluctuations of such assets.

In the case of goods such as wines, etc., the price increases according to the number of years the wines have been in stock. The goods may, therefore, legitimately be re-valued each year at an enhanced figure instead of at cost price. The increase in price, however, should not exceed a

Dr.

## LOAN ON MORTGAGE AT 6 PER CENT.

Cr.

Date.	Particulars.	Income.	Capital.	Date.	Particulars.	Income.	Capital.
19.. 1 July 19..	To Balance.. ..		2,000	19.. June 30	By Cash (proceeds of sale, £1,560; less expenses £60) £1,500 apportioned thus:—		
June 30	„ Transfer to Income Account .. ..	228 16 3			Capital .. £2,000 Interest in arrear, 3 years at £120 p.a. } 360		
					Total .. £2,360		
					Capital— £2,000 of £1,500		1,271 3 9
					Income— 3% of £1,500	228 16 3	
					„ Estate Account (transfer of loss)		728 16 3
		228 16 3	2,000			228 16 3	2,000

sum equivalent to interest on the capital value of the goods.

In partnership accounts, on the admission of a new partner, the assets, or some of them, are occasionally re-valued at a higher figure, the difference in value being added to the various assets, and credited in the proper proportions to the capital accounts of the old partners.

**APPRO., GOODS ON.**—When goods are sent out on approval they should not be entered in the Sales Book and posted into the Ledger like an ordinary sale, as is sometimes done; but a memorandum book should be employed, and the particulars of the goods and the names and addresses of the customers entered in this, so as to avoid the possibility of the goods being forgotten. If, however, the transactions are numerous, a separate "**Appro. Day Book**" and a separate "**Appro. Ledger**" should be used. The customer should be debited with the goods sent him and credited with what he returns, the balance, representing what he has kept, being transferred to the regular Sales Day Book, and posted from that book to the regular Sales Ledger.

For goods bought on approval no entry need be made. The goods not wanted will be sent back, and for those retained a purchase invoice will be received in due course. This will be passed through the Bought Book to the Bought Ledger in the usual way.

**APPROPRIATION ACCOUNT.**—(Sometimes called Profit and Loss Appropriation Account, Net Revenue Account, and also Proposed Appropriation of Profit Account, as being the distribution of profit proposed by the directors, subject to the approval of the shareholders in general meeting.) This is a second division of the Profit and Loss Account, usually employed in company accounts, in order to show the total profits available for distribution and how they will be appropriated or disposed of. The first item in the account is the credit (sometimes debit) balance brought forward from the previous year. On the credit side is then placed the net profit of the current year and any other profits which have not been included in the Profit and Loss Account. On the debit side is the Managing Director's Remuneration (generally a percentage of the profits), the Directors' fees (when these have to be voted and are not fixed by the Articles of Association), the proposed transfer to the Reserve Fund Account, the amounts required for Dividends

(Preference, Ordinary, etc.), and the balance to be carried forward. For an example see **TRADING ACCOUNT OF A COMPANY.**

In some companies, in order to make the profits appear as large as possible, debenture interest and depreciation of the various assets are included in the Appropriation Account. From an accountant's point of view, this is not correct ; for such items are really charges against the profits, not appropriations of it, and should, therefore, be shown in the Profit and Loss Account.

**APPROXIMATE (OR ESTIMATED) STOCK ACCOUNT.—**

In some businesses it is necessary for the proprietors or directors to know at any time the value of the stock on hand, at least approximately, without going through the long and tedious process of stock-taking. Where the rate of gross profit is a fixed percentage of the selling price, a fairly accurate result may be obtained by adding to the stock at start the subsequent net purchases, and deducting from the total the net sales for the same period, after reducing them by the said percentage of gross profit.

**Example—**

Dr.				APPROXIMATE STOCK ACCOUNT.				Cr.			
19..				19..							
Jan. 1	To Stock ..	3,000		Jan. 31	By Sales (less			1,000			
" 31	" Purchases				returns)			250			
	(less re-				less 25%						
	turns) ..	600						750			
					" Balance						
					(estimated						
					stock) c/d			2,850			
		3,600						3,600			
Feb. 1	To Balance										
	(present										
	stock) ..	2,850									

Such accounts enable approximate Trading and Profit and Loss Accounts to be prepared, which the directors of some businesses require to be submitted to them monthly. They are also useful when making claims on insurance companies for loss of stock-in-trade by fire.

**ARREARS OF DIVIDEND ON CUMULATIVE PREFERENCE SHARES.—**These are usually stated at the foot of the Balance Sheet as a contingent liability ; for, in the event of

there being profits available for dividend, the company will have to pay these arrears before distributing dividends to holders of other classes of shares.

**ARTICLES OF ASSOCIATION.**—A set of rules or by-laws drawn up to govern the internal working of a company. They regulate the issue of capital, the transfer and forfeiture of shares, the holding of meetings, prescribe for the keeping of the accounts and the audit of same, define the powers and duties of directors, the rights of shareholders *inter se*, etc. Where a company does not frame articles of its own, a model set of articles, called Table A, provided in the Companies (Consolidation) Act, 1908, becomes compulsory, and must be adopted by such company.

Articles of Association must be registered with the Memorandum of Association, and in the case of companies registered after the commencement of the 1908 Act with articles of association, such articles must, by Section 11, expressly exclude or modify the regulations in Table A; otherwise these will be held, where applicable, to be the regulations of the company. By Section 12, articles must (a) be printed, (b) be divided into paragraphs numbered consecutively, (c) bear a deed stamp, (d) be signed by each subscriber of the memorandum of association. Section 13 allows a company, by special resolution, to alter or add to its articles.

**ASSETS.**—Property of any description, including goods, money, book debts, and bills receivable, etc., Assets are of various kinds :—

**Fixed Assets.**—Those which it is intended to keep in the business for the purpose of earning income, such as Plant, Machinery, Horses, Carts, Lease, Goodwill. These form the Fixed Capital.

**Floating Assets.**—Those which are acquired for the purpose of sale and subsequent conversion into money, such as Stock, Bills Receivable, Book Debts, etc. These constitute the Floating or Circulating Capital.

**Note.**—The same assets may be both fixed and floating according to circumstances. Thus, horses to a horse dealer would be a floating asset; to an omnibus company a fixed asset; investments to a stockbroker would be a floating asset; to an ordinary merchant a fixed asset; land to a land company would be a floating asset; to a manufacturing company a fixed asset. The difference is that in the one case

the asset is held permanently, and in the other case merely for re-sale.

**Wasting Assets.**—Those assets of a fixed nature which decrease in value through wear and tear, and for which it is necessary to provide for depreciation, such as Plant and Machinery, etc.; or those which become valueless through effluxion of time, such as a Lease, Patents, etc.

**Fictitious Assets.**—This is a term applied to those items which appear on the asset side of a Balance Sheet, but which do not represent value, or which cannot be realised, such as a debit balance of Profit and Loss Account, Unexpired Insurance, Preliminary Expenses not written off, etc.

**Liquid Assets.**—Those assets which are readily convertible into cash, and thus are immediately available for meeting liabilities; such as Cash, Bills Receivable, Investments.

**ASSURANCE (LIFE) COMPANIES' ACCOUNTS.** The term **assurance** seems now to be restricted to companies doing life business, in which the happening of the event is a certainty; and the term **insurance** to companies doing other kinds of business, such as fire, or accident, in which the happening of the event is merely a contingency.

This distinction is adopted in the Assurance Companies Act, 1909, which now governs such companies, and which defines **life assurance business** as "the issue of, or the undertaking of liability under, policies of assurance upon human life, or the granting of annuities upon human life."

**Deposit of £20,000.**—Section 2 says every assurance company shall deposit and keep deposited with the Paymaster-General for and on behalf of the Supreme Court, the sum of £20,000, the said money to be invested in securities approved by the Court, and the interest accruing thereon to be paid to the company.

**Life assurance** is "a contract by which the assurer, in consideration of certain payments, either in a gross sum, or by annual payments, undertakes to pay to the person for whose benefit the assurance is made, a certain sum of money or annuity, on the death of the person whose life is assured." By the modern system of endowment policies, payment is often stipulated to be made either on the death of the person assured, or after the lapse of a specified number of years, whichever happens first.



**Kinds of Companies.**—Life Assurance Companies are of two kinds—

(1) **Mutual Companies.**—Those in which there are no shareholders, or proprietors, as they are sometimes called, the whole of the profits being consequently divisible among the policy holders.

(2) **Proprietary Companies.**—Those established by special Act of Parliament, or under the Companies Acts. In these the profit is divided in certain proportions between the policy holders and the shareholders, the former receiving a bonus, and the latter a dividend. There are also subdivisions into (a) **Ordinary Life Companies**, in which the premiums are payable quarterly, half-yearly, or annually; and (b) **Industrial Life Companies**, in which the premiums are small sums payable weekly or monthly.

**Mode of Procedure.**—Life assurance is effected by a person filling up a **proposal form**, in which the questions must be answered with the greatest care, as failure to disclose material facts may render the policy void. This form constitutes an offer to the company, and, if satisfactory, is followed by an acceptance letter, and later on by the **policy**, which is a document containing the contract. The company undertaking the assurance is called the **assurer**, and the party for whose benefit it is effected is termed the **assured**; the consideration for the company undertaking the assurance is said to be the **premium**. The first payment is called the **first premium**, subsequent ones being termed **renewal premiums**. Thirty days of grace are allowed in the case of a life policy, and in the event of non-payment the policy becomes void. But should death occur during this interval, the policy still holds good, and the renewal premium will be deducted from the amount of the claim. **Single premiums** are payments made in one lump sum to cover a policy of several years' duration.

**Policies.**—These may be for (a) whole life, with or without profits; (b) endowment, with or without profits, that is, payable during the lifetime of the assured on his reaching a certain age, or after death, if that takes place previously.

**Insurable Interest.**—To prevent a "mischievous kind of gaming" which had sprung up in connection with life assurance, a statute was passed in 1774, which enacted—

(1) No insurance shall be made by any person or persons, bodies politic or corporate, on the life or lives of any person

or persons, or on any other event or events whatsoever, wherein the person or persons for whose use, benefit, or on whose account such policy or policies shall be made, shall have no interest, or by way of gaming or wagering, and every assurance made contrary to the true intent and meaning hereof shall be null and void to all intents and purposes whatsoever.

(2) It shall not be lawful to make any policy or policies on the life or lives of any person or persons, or other event or events, without inserting in such policy or policies the person or persons' name or names interested therein, or for whose use, benefit, or on whose account such policy is so made or underwritten.

(3) In all cases where the insured hath interest in such life or lives, event or events, no greater sum shall be recovered or received from the insurer or insurers than the amount or value of the interest of the insured in such life or lives, or other event or events.

A person may assure his own life, however, for any amount. A creditor may assure his debtor's life for the amount of his debt. A beneficiary may assure his trustee; a husband, his wife; a wife, her husband.

**Assignment of Policies.**—By an Act passed in 1867 a life policy can be assigned or transferred to another party. This power enables a person to assure his own life, and then transfer the policy to another person for the latter's benefit; which could not be done directly, owing to the absence of insurable interest.

**Surrender Value.**—After the payment of the first three annual premiums, a life policy becomes a marketable security, as a surrender value then accrues. The surrender value of a policy is the sum of money which the assurance company is willing to pay to the assured to return his policy to the company, and thus extinguish their liability to him under it. The surrender value, being a certain percentage of the premiums paid, increases from year to year. The two principal causes of surrenders are (1) that the reason for taking out the policy no longer exists; (2) through financial difficulties the payment of the premiums cannot be continued.

**Loans on Policies.**—Where the surrender value is sufficiently large, a policy holder may obtain from the company, or from private individuals, a loan on the security of his

policy, the rate of interest varying from 4 to 5 per cent. In business houses life policies are often deposited with bankers in order to obtain an overdraft.

**Agents' Commission.**—The sum paid to agents for the new business introduced by them and also upon the premiums they collect.

**Over-riding Commission.**—The commission paid to district agents and branch managers on the business (new and renewals) effected by agents whom they have introduced to the company.

**Claims.**—These may be of two kinds—

(1) Those arising from death ;

(2) Those arising from endowment policies matured. The old statutory forms did not make any distinction between the two, though the published revenue accounts of life companies often did so. In the new forms the two are to be shown separately.

**Bonuses.**—In life assurance these may be of two kinds—

(1) A cash bonus, that is, a sum of money returned in cash to the person assured ; or

(2) A reversionary bonus, that is, a certain sum added to the value of the policy, and payable on the maturity of the policy, together with the original sum assured.

A bonus may also take the form of a reduction in the rate of future premiums. Bonuses, of course, only apply to policies of assurance effected "with profits."

**Re-assurances.**—Every company has a limit of risk that it will take on any one policy ; and when, therefore, it issues a policy for a greater amount than this limit, it assures the balance with another company at a liberal trade discount off the usual rates. This process is termed re-assuring, and the premiums so paid are called re-assurances. A company may also accept the surplus risks, or a portion of them, of other companies. Thus re-assurance premiums may be received as well as paid. And to the company accepting the surplus risk, or a portion of it, the re-assurance premiums are technically known as **guarantees** or **guarantee premiums**.

**Life Fund.**—The life fund exists exclusively for the benefit of the life policy holders, and cannot, therefore, be utilised for the purpose of discharging other liabilities of the company. The life funds have to be separately invested in the names of a body of specially appointed trustees, and are appropriated exclusively as a provision for the liabilities under life assurance

and annuity policies. In the case of the life funds being insufficient, the policy holders have a claim upon other funds of the company, and also upon its uncalled capital (if any).

**Income and Expenditure.**—Broadly speaking, the income of a life assurance company may be said to consist of (*a*) premiums ; (*b*) rents, interest and dividends on loans and investments ; and the expenditure to comprise (*a*) claims, (*b*) working and management expenses.

**Books of Account.**—The books generally employed in a life assurance office are—

- (1) General Cash Book, for daily totals, with two subsidiary cash books, having columns for analysis.
- (a) Cash Received Book, for premiums, interest, and dividends on loans and investments, loans repaid, branch and agency remittances, etc.
- (b) Cash Paid Book, for claims, annuities, bonuses, surrenders, loans, investments, re-assurances, management expenses, etc.
- (2) Petty Cash Book, for small disbursements.
- (3) Bills Receivable and Payable Books.
- (4) Investments Journal and Ledger.
- (5) Loans Journal and Ledger.
- (6) General Journal and Ledger.
- (7) The usual company books (where there is a share capital).

There are also numerous departmental books, such as premium registers, commission books and ledgers, claims books, branch and agency books and ledgers, etc.

**Actuarial Valuation.**—This is prescribed by law (Section 5 of the 1909 Act), and must take place at least once in five years, but may be done at shorter intervals. The following is the form set out in the Act—

VALUATION BALANCE SHEET.

	£		£
Net liability under Life Assurance and Annuity transactions .. ..		Life Assurance and Annuity Funds .. ..	
Surplus (if any) .. ..		Deficiency (if any) .. ..	

**Profit.**—A Valuation Balance Sheet is prepared by an actuary, usually every five years, in order to ascertain the net liabilities under assurance and annuity transactions ;

and the excess of the life assurance and annuity funds over these net liabilities is considered to be profit. This profit is then brought into the books by debiting the amount to the life assurance and annuity accounts (thus reducing them to the actual liability), and crediting it to Profit and Loss Account. There is, therefore, no yearly profit and loss account, the annual income and expenditure account being merely balanced, and the balance, representing the amount of funds in hand, carried forward year by year until the quinquennial valuation takes place.

**Published Accounts.**—Prior to the passing of the Life Assurance Companies Acts, 1870-1872, which first instituted an income and expenditure account, the presentation of accounts was on a cash basis. Receipts and payments were included whether they belonged to the current year, the previous year, or a subsequent year; money lent and investments in securities were shown as expenditure; the repayment of loans and the proceeds of sales appeared as income. The result was simply a confused and obscure mass of figures. The Assurance Companies Act, 1909, enacts in Section 4 as follows—

Every assurance company shall, at the expiration of each financial year of the company, prepare—

- (a) A revenue account for the year in the form or forms set forth in the First Schedule to this Act, and applicable to the class or classes of assurance business carried on by the company;
- (b) A profit and loss account in the form set forth in the Second Schedule to this Act, except where the company carries on assurance business of one class only and no other business;
- (c) A balance sheet in the form set forth in the Third Schedule to this Act.

The prescribed forms, it will be noticed, differ from the form generally employed by companies registered under the Companies Acts in two respects—

- (1) In the Revenue Account, income and expenditure, and in the Profit and Loss Account, losses and gains, are placed on the opposite sides to what is usually considered the correct way.
- (2) In the Balance Sheet, details, under specified headings, are required as to the mortgages, loans, and investments.



(A.)—Form applicable to Life Assurance Business.

for the Year ending

*in respect of Life Assurance Business.*

Business within the United Kingdom.	Business out of the United Kingdom.	Total.
Amount of Life Assurance Fund at the beginning of the year ..		
Premiums :—		
Consideration for Annuities granted		
Interest, Dividends, and Rents .. ..	£ s. d.	
Less Income Tax thereon .. ..		
Other Receipts (accounts to be specified) .. .. .		
		£
£ s. d.	£ s. d.	£ s. d.
Claims under Policies paid and outstanding :—		
By Death .. .. .		
By Maturity .. .. .		
Surrenders, including Surrenders of Bonus .. .. .		
Annuities .. .. .		
Bonuses in Cash .. .. .		
Bonuses in Reduction of Premiums .. .. .		
Commission .. .. .		
Expenses of Management .. ..		
Other Payments (accounts to be specified) .. .. .		
Amount of Life Assurance Fund at the end of the year, as per Third Schedule .. .. .		£

NOTE 6.—The columns headed "Business out of the United Kingdom," in the case of companies having their head office in the United Kingdom, apply only to business secured through Branch Offices or Agencies out of the United Kingdom.



(B.)—Form applicable to Fire Insurance Business.

Revenue Account of the \_\_\_\_\_ for the Year ending \_\_\_\_\_ 19.. in respect of Fire Insurance Business.

£	s.	d.	£	s.	d.
Amount of Fire Insurance Fund at the beginning of the year :— Reserve for unexpired risks .. .. Additional Reserve (if any) .. ..			Claims under Policies paid and outstanding .. .. Commission .. .. Expenses of Management .. .. Contribution to Fire Brigades .. .. Other Payments (Accounts to be specified) .. ..		
Premiums .. .. Interest, Dividends, and Rents .. .. Less Income Tax thereon .. ..			Amount of Fire Insurance Fund at the end of the year as per Third Schedule :— Reserve for unexpired risks, being per cent. of Premium Income for the year Additional Reserve (if any) .. ..		
Other Receipts (Accounts to be specified) .. ..			Amount of Fire Insurance Fund at the end of the year as per Third Schedule :— Reserve for unexpired risks, being per cent. of Premium Income for the year Additional Reserve (if any) .. ..		
£			£		

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.  
 NOTE 2.—If any sum has been deducted from the Expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.





(E.)—Form applicable to Bond Investment Business.

Revenue Account of the \_\_\_\_\_ for the Year ending \_\_\_\_\_ 19.. in respect of Bond Investment and Endowment Certificate Business.

		£ s. d.		£ s. d.	
Amount of Bond Investment and Endowment Certificate Fund at the beginning of the year	Additional Reserve (if any) .. .. .	£	s. d.	Claims under Bonds and Certificates, paid and outstanding .. .. .	£ s. d.
	Premiums .. .. .	£	s. d.	Commission .. .. .	£ s. d.
Interest, Dividends, Rents.. .. .	Less Income Tax thereon .. .. .	£	s. d.	Expenses of Management .. .. .	£ s. d.
	Other Receipts (Accounts to be specified) .. .. .	£	s. d.	Other Payments (Accounts to be specified) .. .. .	£ s. d.
				Amount of Bond Investment and Endowment Certificate Fund at the end of the year, as per Third Schedule .. .. .	£ s. d.
				Additional Reserve (if any) .. .. .	£ s. d.
					£

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risk.  
 NOTE 2.—If any sum has been deducted from the Expenses of Management Account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

## SECOND SCHEDULE.

PROFIT AND LOSS ACCOUNT OF THE		FOR THE YEAR ENDING 19..	
	£	s.	d.
Balance of last year's Account	..	..	..
Interest and Dividends not carried to other Accounts	£	s.	d.
Less Income Tax thereon			
Profit realised (Accounts to be specified)	..		
Other Receipts (Accounts to be specified)	..		
	£		
Dividends and Bonuses to Shareholders	..		
Expenses not charged to other Accounts	..		
Loss realised (Accounts to be specified)	..		
Other Payments (Accounts to be specified)	..		
Balance as per Third Schedule	..		
	£		

### THIRD SCHEDULE.

BALANCE SHEET of the		on the		19..	
LIABILITIES.		£	s. d.	ASSETS	
Shareholders' Capital paid up (if any)	..	£	s. d.	Mortgages on Property within the United Kingdom	..
Life Assurance Funds 1	..	..	..	out of the United Kingdom	..
Ordinary Branch	..	..	..	Loans on Parochial and other Public Rates	..
Industrial do.	..	..	..	Life Interests	..
Annuity Fund 1	..	..	..	Reversions	..
Fire Insurance Fund	..	..	..	Stocks and Shares	..
Accident Insurance Fund	..	..	..	Company's Policies within their Surrender Values	..
Employers' Liability Insurance Fund	..	..	..	Personal Security	..

Investments :		
Deposit with the High Court (Securities to be specified)	..	£
British Government Securities	..	..
Municipal and County Securities, United Kingdom	..	..
Indian and Colonial Government Securities	..	..
" " Provincial Securities..	..	..
" " Municipal " ..	..	..
Foreign Government Securities	..	..
" " Provincial " ..	..	..
" " Municipal " ..	..	..
Railway and other Debentures and Debenture Stocks—	..	..
Home and Foreign	..	..
Railway and other Preference and Guaranteed Stocks	..	..
Ordinary Stocks	..	..
Rent Charges..	..	..
Freehold Ground Rents	..	..
Leasehold	..	..
House Property	..	..
Life Interests..	..	..
Reversions	..	..
Agents' Balances	..	..
Outstanding Premiums <sup>2</sup>	..	..
" Interest, Dividends, and Rents <sup>2</sup>	..	..
Interest accrued, but not payable <sup>2</sup>	..	..
Bills Receivable	..	..
Cash ; On deposit	..	..
In hand and on Current Account	..	..
Other Assets (to be specified)	..	..
		£

Bond Investment and Endowment Certificate Fund	
Marine Insurance Fund	..
Sinking Fund and Capital Redemption Fund	..
Profit and Loss Account	..
Other Funds (if any) to be specified ..	..
	£
Claims admitted or intimated, but not paid <sup>2</sup>	..
Life Assurance ..	..
Fire Insurance ..	..
Bond Investment ..	..
Annuities due and unpaid <sup>2</sup>	..
Other sums owing by the Company <sup>2</sup> (to be stated separately under each class of business)	..
	£

<sup>1</sup> Life companies having separate annuity fund to show amount thereof separately.

<sup>2</sup> These items are or have been included in the corresponding items in the First Schedule.

NOTE 1.—When part of the assets of the company are specifically deposited, under local laws, in various places out of the United Kingdom, as security to holders of policies there issued, each such place and the amount compulsorily lodged therein must be specified in respect of each class of business except that, in the case of fire, accident, or employers' liability insurance business, it shall be sufficient to state the fact that a part of the assets has been so deposited.

NOTE 2.—A Balance Sheet in the above form must be rendered in respect of each separate fund for which separate investments are made.

NOTE 3.—The Balance Sheet must state how the values of the Stock Exchange securities are arrived at, and a certificate must be appended, signed by the same persons as sign the Balance Sheet, to the effect that in their belief the assets set forth in the Balance Sheet are in the aggregate fully of the value stated therein, less any investment reserve fund taken into account. In the case of a company transacting life assurance business or bond investment business, the certificate is to be given on the occasions only when a statement respecting valuation under the Fourth Schedule is made.

NOTE 4.—In the case of a company required to keep separate funds under Section 3 of this Act, a certificate must be appended, signed by the same persons as signed the Balance Sheet and by the auditor, to the effect that no part of any such fund has been applied, directly or indirectly, for any purpose other than the class of business to which it is applicable.



**Example.**—From the following particulars prepare Revenue Accounts and Balance Sheet of the United Kingdom Life Assurance Co., Ltd., for the year ending 31st Dec., 19..<sup>6</sup>—

Mortgages on property within the United Kingdom	..	12,525,000
Deposit with the High Court—Securities	.. ..	20,000
British Government Securities	.. ..	3,495,000
Foreign Government Securities	.. ..	3,715,000
Indian and Colonial Government Securities	.. ..	6,235,000
Freehold and Leasehold Property (including the Company's offices at cost less depreciation)	.. ..	2,525,000
Life Interests	.. ..	1,475,000
Reversions	.. ..	99,500
Freehold Ground Rents	.. ..	3,215,000
Leasehold Ground Rents	.. ..	9,500
Loans on parochial and other public rates	.. ..	14,475,000
Loans on company's policies within their surrender values	.. ..	3,305,000
Shareholders' Capital (10,000 shares of £100 each, fully paid)	.. ..	1,000,000
Railway and other Debentures and Debenture Stocks—home and foreign	.. ..	9,515,000
Claims admitted or intimated, but not paid	.. ..	155,500
Railway, Gas, and Water Co. Stocks	.. ..	6,485,000
Metropolitan Water Board Stocks	.. ..	385,000
Sundry Creditors	.. ..	545
Cash on Deposit	.. ..	250,000
Cash in hand and on current account	.. ..	275,723
Annuities due and unpaid	.. ..	3,500
Outstanding Premiums	.. ..	221,500
Outstanding Dividends, Interest, and Rents	.. ..	250,000
Furniture and Fixtures	.. ..	23,950
Policy Stamps	.. ..	4,050
Interest accrued, but not payable	.. ..	279,500
Agents' Balances	.. ..	320,000
Investment Reserve Fund	.. ..	1,000,000

(1) INDUSTRIAL BRANCH.

Life Assurance Fund, 1 Jan., 19..	.. ..	27,500,000
Claims under Policies paid and outstanding	.. ..	2,550,000
Fines, Fees, etc.	.. ..	6,000
Surrenders, including surrenders of Bonus	.. ..	155,000
Bonus to Superintendents and Agents	.. ..	32,000
Premiums	.. ..	5,325,000
Commission	.. ..	1,555,000
Dividends and Bonus to Shareholders	.. ..	450,000
Management Expenses	.. ..	850,000
Interest, Dividends, and Rents, £1,220,400, less tax	.. ..	71,190

(2) ORDINARY BRANCH.

Life Assurance Fund, 1 Jan., 19..	.. ..	35,500,000
Claims under policies paid and outstanding (after deduction of sums re-assured) :—		
(a) by deaths	.. ..	1,050,000
(b) by endowments matured	.. ..	1,650,000
Assignment Fees, Fines, etc.	.. ..	8,000

Surrenders, including surrenders of Bonus .. ..	£365,000
Bonus in Cash to Policy holders .. ..	125,000
Premiums (after deduction of re-assurance premiums) ..	4,550,000
Commission .. ..	245,000
Management Expenses.. ..	115,500
Interest, Dividends, and Rents, £1,435,080, less tax ..	83,713
Transfer to Investment Reserve Fund .. ..	220,500

## (3) ANNUITY ACCOUNT.

Amount of Fund at 1 Jan., 19.. ..	855,500
Consideration for Annuities granted .. ..	145,250
Interest, Dividends, and Rents, £38,040, less tax .. ..	2,219
Annuities .. ..	115,500
Surrenders .. ..	725
Commission .. ..	1,525
Expenses of Management .. ..	1,220

## REVENUE ACCOUNTS

*For the year ending 31 Dec., 19...*

## (1) INDUSTRIAL BRANCH.

	£		£
Life Assurance Fund at 1 Jan., 19.. ..	27,500,000	Claims under Policies paid and outstanding	2,550,000
Premiums .. ..	5,325,000	Surrenders, including surrenders of Bonus ..	155,000
Interest, Dividends, and Rents—		Bonus to Superintendents and Agents.. ..	32,000
Gross .. £1,220,400		Commission .. ..	1,555,000
Less Tax .. 71,190		Management Expenses..	850,000
	1,149,210	Bonus and Dividends to Shareholders .. ..	450,000
Fines, Fees, etc... ..	6,000	Life Assurance Fund at end of year.. ..	28,388,210
	£ 33,980,210		£ 33,980,210

## (2) ORDINARY BRANCH.

	£		£
Life Assurance Fund at 1 Jan., 19.. ..	35,500,000	Claims under Policies paid and outstanding (less re-assurances)—	
Premiums (less re-assurances) .. ..	4,550,000	(a) by deaths .. ..	1,050,000
Interest, Dividends, and Rents—		(b) by endowments ..	1,650,000
Gross .. £1,435,080		Surrenders, including surrenders of Bonus ..	365,000
Less Tax .. 83,713		Bonus in Cash to Policy holders .. ..	125,000
	1,351,367	Commission .. ..	245,000
Assignment Fees, Fines, etc.	8,000	Management Expenses..	115,500
		Transfer to Investment Reserve Fund .. ..	220,500
		Life Assurance Fund at end of year.. ..	37,638,367
	£ 41,409,367		£ 41,409,367

## (3) ANNUITY ACCOUNT.

	£		£
Amount of Fund at 1 Jan.,		Annuities .. .. .	115,500
19.... .. .	855,500	Surrenders .. .. .	725
Consideration for Annuities		Commission .. .. .	1,525
granted .. .. .	145,250	Management Expenses..	1,220
Interest, Dividends, and		Amount of Fund at end	
Rents—		of year.. .. .	917,601
Gross .. £38,040			
Less Tax .. 2,219			
	35,821		
	£ 1,036,571		£ 1,036,571

## BALANCE SHEET AS AT 31ST DEC., 19...

LIABILITIES.	£	ASSETS.	£
Shareholders' Capital ..	1,000,000	Mortgages on Property	
Life Assurance Funds:—		within the United	
Industrial Branch .. ..	28,388,210	Kingdom .. .. .	12,525,000
Ordinary Branch .. ..	37,638,367	Loans on Parochial and	
Annuity Fund .. .. .	917,601	other Public Rates ..	14,475,000
Investment Reserve Fund	1,000,000	Loans on Company's poli-	
		cies within their sur-	
Total Funds .. .. .	68,944,178	render values .. ..	3,305,000
Claims admitted or inti-		Investments—	
mated, but not paid ..	155,500	Deposit with High Court	20,000
Annuities due and unpaid	3,500	British Govt. Securities	3,495,000
Sundry Creditors .. ..	545	Indian and Colonial	
		Government Securities	6,235,000
		Foreign Government	
		Securities .. .. .	3,715,000
		Railway and other De-	
		bentures and Deben-	
		ture Stocks—home	
		and foreign .. ..	9,515,000
		Railway Gas and Water	
		Co. Stocks.. .. .	6,485,000
		Metropolitan Water	
		Board Stocks .. ..	385,000
		Freehold Ground Rents	3,215,000
		Leasehold Ground	
		Rents.. .. .	9,500
		Freehold and Lease-	
		hold Property (includ-	
		ing Co.'s offices at	
		cost less depreciation)	2,525,000
		Life Interests .. ..	1,475,000
		Reversions .. .. .	99,500
		Agents' Balances .. ..	320,000
		Outstanding Premiums	221,500
		Interest,	
		Dividends, and Rents	250,000
		Int. accrued not payable	279,500
		Cash on deposit .. ..	250,000
		Cash in hand and on Cur-	
		rent Account .. ..	275,723
		Furniture and Fixtures	23,950
		Policy Stamps .. ..	4,050
	£ 69,103,723		£ 69,103,723

**AUDIT.**—Section 112 of the Companies (Consolidation) Act, 1908, enacts—

- (1) Every company shall at each annual general meeting appoint an auditor or auditors to hold office until the next annual general meeting.
- (2) If an appointment of auditors is not made at an annual general meeting, the Board of Trade may, on the application of any member of the company, appoint an auditor of the company for the current year, and fix the remuneration to be paid to him by the company for his services.
- (3) A director or officer of the company shall not be capable of being appointed auditor of the company.

A person other than a retiring auditor cannot be appointed auditor at an annual general meeting, unless the shareholder who proposes to nominate him has given notice of such intention to the company fourteen days before the meeting. The first auditors of the Company may be appointed by the directors, who may also fill any casual vacancy.

Section 113 of the same Act says—

- (1) Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, and shall be entitled to require from the directors and officers of the company such information and explanation as may be necessary for the performance of the duties of the auditors.
- (2) The auditors shall make a report to the shareholders on the accounts examined by them, and on every balance sheet laid before the company in general meeting during their tenure of office, and the report shall state—
  - (a) whether or not they have obtained all the information and explanations they have required ; and
  - (b) whether, in their opinion, the balance sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company.

The balance sheet must be signed by two directors and the auditors' report attached to it, or else reference must be made at the foot of the balance sheet

to the auditors' report, which must be read before the company in general meeting.

**AUDIT FEE.**—A separate subsidiary account is sometimes opened for this item, but very often it is merged with legal fees, and appears under the heading of "Legal and Accountancy Fees." It is closed to Profit and Loss.

A **Reserve for Audit Fee** is usually made, in order that the auditor's charges may appear in the same set of accounts which he is called upon to investigate. If this were not done, the audit fee for one year would appear in the next year's accounts, as the auditor cannot charge for the work before he has completed it; and he may not be called in until all the books are balanced and the accounts prepared.

**AUTHORISED CAPITAL.**—(See COMPANY.)

**AVERAGE DUE DATE.**—This is the mean, or equated, date on which a single amount can be paid in lieu of several payments on different dates.

It is used in the payment of bills, in the settlement of contra accounts, and for calculating interest (*a*) on the realisation of book debts in a partnership liquidation, (*b*) on partners' drawings.

The process of working is as follows—

(1) Take any convenient date, preferably the first due date of the transactions, as a starting-point.

(2) Multiply the amount of each transaction by its number of days from the starting-point. Fractions of a pound under ten shillings are ignored; fractions of a pound of ten shillings and over are counted as another pound.

(3) Add up these various products into one total.

(4) Add up the amounts of the various transactions into one total.

(5) Divide the total of the products by the total amount of the transactions.

(6) The result will be the number of days that the average due date is from the starting-point. This date can then be calculated, fractions of a day being ignored.

**Example 1.**—A merchant has accepted bills for the following amounts which fall due as under—

Feb. 1.	£300	due	4th April;
„ 3.	£250	due	6th May;
Mar. 8.	£225	due	11th June;
„ 10.	£420	due	13th July.

He now wishes to have these bills cancelled, and to accept a

Cr.

. WHITE IN ACCOUNT WITH B. BLACK.

Dr.

Date.	Item.	Due Date.	Amount.	Days.	Products.	Date.	Item.	Due Date.	Amount.	Days.	Products.
Jan. 1	To Goods	Mar. 1	200	8	1,600	Jan. 21	By Goods	Feb. 21	150	0	(starting-point.
Feb. 15	"	Apr. 15	150	53	7,950	Mar. 2	"	April 2	225	40	9,000
Mar. 22	"	May 22	175	90	15,750	Apr. 11	"	May 11	70	79	5,530
							Balance	.. ..	80		10,770
			525		25,300				525		25,300
	To Balance		80								

10,770 divided by 80 = 135 days from starting-point. The average due date is, therefore, July 6th, on which date W. White must pay B. Black £80.



new bill for the whole amount payable on the average due date. Ascertain this date.

Starting-point is April 4th.

April 4 = 0 days from starting-point.

May 6 = 32     "     "     "     "

June 11 = 68     "     "     "     "

July 13 = 100     "     "     "     "

$$\text{Average due date} = \frac{(300 \times 0) + (250 \times 32) + (225 \times 68) + (420 \times 100)}{300 + 250 + 225 + 420}$$

days from starting-point.

$$= \frac{0 + 8,000 + 15,300 + 42,000}{1,195} = \frac{65,300}{1,195} = 55 \text{ days}$$

from starting-point, that is, from April 4th = 29th May.

**Example 2.**—B. Black sells goods to W. White as follows—

Jan. 1st, £200 ; Feb. 15th, £150 ; Mar. 22nd, £175.

He also buys goods from W. White as under—

Jan. 21st, £150 ; Mar. 2nd, £225 ; April 11th, £70.

B. Black allows two months' credit, but W. White allows only 1 month. Both parties, however, desire settlement at the equated date. When will this be ? (See page 59.)

**BAD DEBTS.**—These are debts which appear in the books of a firm, the money for which will never be received, owing (a) to the debtor's insolvency or (b) to his absconding and leaving no trace of his whereabouts, or (c) to the fact that the debt has become **statute barred**, that is, not legally recoverable after a lapse of six years.

Bad debts arise from various causes. Business people often overtrade, that is, buy beyond their means ; or they give credit recklessly, not making proper inquiries as to the status of the buyer ; or, again, a depression in trade will sometimes embarrass them financially.

A person is said to be **insolvent** when he cannot pay his liabilities in full ; but he is not, strictly speaking, a **bankrupt** until he has been declared insolvent by the bankruptcy court.

A debtor will sometimes make a **composition** with his creditors, that is, a legal arrangement whereby each



If only part of the debt is bad, the other part being paid in cash, then a Cash Book entry will be required in addition to the Journal entry.

**Example 2.**—J. Simpson owes me £72. He arranges to pay his creditors a composition of 7s. 6d. in the £. This is agreed to, and the money duly received. Make the necessary entries in the books, and show the Ledger Accounts affected.

Seven shillings and sixpence is  $\frac{90}{240}$  or  $\frac{3}{8}$  of a £. Therefore,  $\frac{5}{8}$  of the debt will be bad.

Dr.	CASH BOOK.										Cr.
	To J. Simpson ( $\frac{3}{8}$ of £72) ..	}	27								

JOURNAL.										Dr.	Cr.
	Bad Debts A/c .. ..									45	
	To J. Simpson .. ..										45
	$\frac{5}{8}$ of debt, £72, irrecoverable										

LEDGER.											
Dr.	J. SIMPSON.										Cr.
	To Balance .. ..		72							By Cash .. ..	27
										„ Bad Debts A/c.	45
			72								72

Dr.	BAD DEBTS.										Cr.
	To J. Simpson .. ..		45							By Profit & Loss A/c	45

Dr.	PROFIT AND LOSS.										Cr.
	To Bad Debts .. ..		45								



Dr.	PROFIT AND LOSS.				Cr.
To Sundry Ex- penses (say) .. ,, Net Profit c/d	500 300			By Gross Profit (say) .. ..	800
	800				800
To Capital A/c.	342			By Net Profit b/d ,, Bad Debts Re- covered ..	300 42
	342				342

**BAD (OR DOUBTFUL) DEBTS RESERVE.**—This is a charge made against the profits in order to make provision for possible bad debts. The required amount is either the total of a specially compiled list of doubtful debts, or a certain percentage of the total debtors. Sometimes the amount reserved is a small percentage ( $\frac{1}{2}$  or 1 per cent.) of the turnover; but this is hardly correct, as the bad debts stand in direct relation to the debtors and not to the total sales. The latter might include a lot of cash transactions; and even if only credit transactions were taken into consideration, some of these might already be paid for at the time of creating the reserve.

**Object of Making a Reserve.**—This is that the debtors shall appear on the balance sheet at as nearly as possible their correct value. On the balance sheet, therefore, the reserve, although a credit balance, is not placed on the liabilities' side, but is shown as a deduction from the debtors on the assets' side.

**Ways of Constructing a Reserve.**—There are two ways in vogue—

(1) The amount of the reserve is debited to the Bad Debts Account and credited to a Bad Debts Reserve Account. Sometimes, however, the reserve is brought down as a credit balance in the Bad Debts Account itself. But this is misleading, as an item Bad Debts, credit balance, appearing in a trial balance would most likely be taken to be some Bad Debts recovered instead of a reserve.

(2) The amount of the Reserve is debited direct to Profit and Loss Account, and credited to a Bad Debts Reserve Account.

The objection to the first way is that the amount is not an *actual* bad debt, but only a *possible* bad debt; and we are, therefore, showing a fictitious amount for bad debts, and rendering all comparisons of amounts for different years inaccurate.

The second way offers difficulties at times, especially to a student working an exercise. If required to create a Bad Debts Reserve, he must either wait until he comes to the Profit and Loss Account, or else he must open a Profit and Loss Account before he has taken out his trial balance ; and this is considered improper.

**Ways of Dealing with the Reserve and the Bad Debts Account.**—With regard to this—

(1) The Bad Debts are transferred to the Reserve made specially for them, and the balance of the Reserve then raised to the amount required for the new reserve, by debiting Profit and Loss with the difference and crediting it to the Reserve. Should, however, the balance of the old reserve be greater than the amount required for the new reserve, the difference is debited to the Reserve and written back to the credit of Profit and Loss.

(2) The Bad Debts are transferred direct to Profit and Loss, thus ignoring the Reserve created specially to meet them. The two Reserves are then adjusted by themselves. If the new reserve is to be greater than the old one, the extra amount required is debited to Profit and Loss and added on or credited to the Reserve ; and if the new reserve is to be less than the old one, the surplus not required is taken from or debited to the Reserve and credited back to Profit and Loss.

The following example, specially prepared, covers all the difficulties of the subject, and has been worked both ways in order to illustrate the different methods.

BAD DEBTS RESERVE.

Example.	Bad Debts, 31 Dec., 19...	Old Reserve, 1 Jan., 19...	New Reserve, 31 Dec., 19...	Debtors, 31 Dec., 19...
1	£ 100	£ —	5% £ Drs.	£ 3,000
2	80	100	5% Drs.	2,500
3	100	80	5% Drs.	2,800
4	40	200	140	2,400
5	—	150	180	4,000
6	60	160	no mention	3,200
7	—	50	to be abolished	2,000



Make the Journal, Profit and Loss Account, and Balance Sheet entries relating to the above, and show also the Ledger Accounts of same.

## First Way.

JOURNAL.				Dr.	Cr.
19..	(1)				
Dec. 31	Profit and Loss .. ..	100			
	To Bad Debts .. ..				100
„ 31	Profit and Loss .. ..	150			
	To Bad Debts Reserve .. ..				150
19..	(2)				
Dec. 31	Bad Debts Reserve .. ..	80			
	To Bad Debts .. ..				80
„ 31	Profit and Loss .. ..	105			
	To Bad Debts Reserve .. ..				105
19..	(3)				
Dec. 31	Bad Debts Reserve .. ..	100			
	To Bad Debts .. ..				100
„ 31	Profit and Loss .. ..	160			
	To Bad Debts Reserve .. ..				160
19..	(4)				
Dec. 31	Bad Debts Reserve .. ..	40			
	To Bad Debts .. ..				40
„ 31	Bad Debts Reserve .. ..	20			
	To Profit and Loss .. ..				20
19..	(5)				
Dec. 31	Profit and Loss .. ..	30			
	To Bad Debts Reserve .. ..				30
19..	(6)				
Dec. 31	Bad Debts Reserve .. ..	60			
	To Bad Debts .. ..				60
19..	(7)				
Dec. 31	Bad Debts Reserve .. ..	50			
	To Profit and Loss .. ..				50

LEDGER.

(1)

<i>Dr.</i>		BAD DEBTS.				<i>Cr.</i>	
19.. Dec. 31	To Sundry Debtors ..	100		19.. Dec. 31	By Profit and Loss ..	100	

<i>Dr.</i>		BAD DEBTS RESERVE.				<i>Cr.</i>	
19.. Dec. 31	To Balance c/d .. ..	150		19.. Dec. 31	By Profit and Loss ..	150	
				19.. Jan. 1	By Balance b/d .. ..	150	

(2)

<i>Dr.</i>		BAD DEBTS.				<i>Cr.</i>	
1910 Dec. 31	To Sundry Debtors ..	80		19.. Dec. 31	By Bad Debts Reserve	80	

<i>Dr.</i>		BAD DEBTS RESERVE.				<i>Cr.</i>	
19.. Dec. 31	To Bad Debts .. ..	80		19.. Jan. 1	By Balance .. ..	100	
"	Balance c/d .. ..	125		Dec. 31	" Profit and Loss ..	105	
		205				205	
				19.. Jan. 1	By Balance b/d .. ..	125	

(3)

<i>Dr.</i>		BAD DEBTS.				<i>Cr.</i>	
19.. Dec. 31	To Sundry Debtors ..	100		19.. Dec. 31	By Bad Debts Reserve	100	

<i>Dr.</i>		BAD DEBTS RESERVE.				<i>Cr.</i>	
19.. Dec. 31	To Bad Debts .. ..	100		19.. Jan. 1	By Balance .. ..	80	
"	" Balance c/d .. ..	140		Dec. 31	" Profit and Loss ..	160	
		240				240	
				19.. Jan. 1	By Balance b/d ..	140	

(4)

<i>Dr.</i>		BAD DEBTS.				<i>Cr.</i>	
19.. Dec. 31	To Sundry Debtors ..	40		19.. Dec. 31	By Bad Debts Reserve	40	

<i>Dr.</i>		BAD DEBTS RESERVE.				<i>Cr.</i>	
19.. Dec. 31	To Bad Debts .. ..	40		19.. Jan. 1	By Balance.. ..	200	
"	" Profit and Loss ..	20					
"	" Balance c/d .. ..	140					
		200				200	
				19.. Jan. 1	By Balance b/d ..	140	

(5)

<i>Dr.</i>		BAD DEBTS RESERVE.				<i>Cr.</i>	
19.. Dec. 31	To Balance c/d .. ..	180		19.. Jan. 1	By Balance .. ..	150	
				Dec. 31	" Profit and Loss ..	30	
		180				180	
				19.. Jan. 1	By Balance b/d ..	180	

(6)

<i>Dr.</i>		BAD DEBTS.				<i>Cr.</i>	
19.. Dec. 31	To Sundry Debtors ..	60		19.. Dec. 31	By Bad Debts Reserve	60	

<i>Dr.</i>		BAD DEBTS RESERVE.				<i>Cr.</i>	
19.. Dec. 31	To Bad Debts .. ..	60		19.. Jan. 1	By Balance.. ..	160	
"	" Balance c/d .. ..	100					
		160				160	
				19.. Jan. 1	By Balance b/d .. ..	100	

(7)

<i>Dr.</i>		BAD DEBTS RESERVE.				<i>Cr.</i>	
19.. Dec. 31	To Profit and Loss ..	50		19.. Jan. 1	By Balance.. ..	50	

*Dr.* PROFIT AND LOSS.

## BALANCE SHEET.

(1)					(1)				
To Bad Debts..	100				Sundry Debtors	3,000			
+ New Reserve	150			250	less Reserve ..	150			2,850
(2)					(2)				
To Bad Debts ..	80				Sundry Debtors	2,500			
+ New Reserve	125				less Reserve ..	125			2,375
	205				(3)				
- Old Reserve	100			105	Sundry Debtors	2,800			
(3)					less Reserve ..	140			2,660
To Bad Debts..	100				(4)				
+ New Reserve	140				Sundry Debtors	2,400			
	240				less Reserve ..	140			2,260
- Old Reserve	80			160	(5)				
(4)					Sundry Debtors	4,000			
<i>Cr.</i>					less Reserve ..	180			3,820
By Bad Debts					(6)				
Reserve... ..	200				Sundry Debtors	3,200			
- Bad Debts ..	40				less Reserve ..	100			3,100
	160				(7)				
- New Reserve	140			20	Sundry Debtors				2,000
<i>Dr.</i> (5)									
To Bad Debts									
Reserve... ..	180								
- Old Reserve	150			30					
(7)									
<i>Cr.</i>									
By Bad Debts									
Reserve... ..				50					

## Second Way.

## JOURNAL.

*Dr.**Cr.*

19..					(1)				
Dec. 31	Profit and Loss ..	..	..	..	100				
	To Bad Debts..	..	..	..				100	
,, 31					150			150	
	Profit and Loss ..	..	..	..					
	To Bad Debts Reserve	..	..	..					

JOURNAL— <i>continued.</i>					<i>Dr.</i>				<i>Cr.</i>
19..	(2)								
Dec. 31	Profit and Loss ..	..	..	..	80				
	To Bad Debts..	..	..	..				80	
„ 31	Profit and Loss ..	..	..	..	25				
	To Bad Debts Reserve ..	..	..	..				25	
19..	(3)								
Dec. 31	Profit and Loss ..	..	..	..	100				
	To Bad Debts..	..	..	..				100	
„ 31	Profit and Loss ..	..	..	..	60				
	To Bad Debts Reserve ..	..	..	..				60	
19..	(4)								
Dec. 31	Profit and Loss ..	..	..	..	40				
	To Bad Debts..	..	..	..				40	
„ 31	Bad Debts Reserve ..	..	..	..	60				
	To Profit and Loss ..	..	..	..				60	
19..	(5)								
Dec. 31	Profit and Loss ..	..	..	..	30				
	To Bad Debts Reserve ..	..	..	..				30	
19..	(6)								
Dec. 31	Profit and Loss ..	..	..	..	60				
	To Bad Debts..	..	..	..				60	
19..	(7)								
Dec. 31	Bad Debts Reserve ..	..	..	..	50				
	To Profit and Loss ..	..	..	..				50	

## LEDGER.

(1)

<i>Dr.</i>	BAD DEBTS.								<i>Cr.</i>
19.. Dec. 31	To Sundry Debtors ..	100			19.. Dec. 31	By Profit and Loss ..	100		

<i>Dr.</i>	BAD DEBTS RESERVE.								<i>Cr.</i>
19.. Dec. 31	To Balance c/d ..	150			19.. Dec. 31	By Profit and Loss ..	150		
					19.. Jan. 1	By Balance b/d ..	150		

(2)

<i>Dr.</i>		BAD DEBTS.		<i>Cr.</i>	
19.. Dec. 31	To Sundry Debtors ..	80	19.. Dec. 31	By Profit and Loss ..	80

<i>Dr.</i>				BAD DEBTS RESERVE.				<i>Cr.</i>			
<sup>19..</sup> Dec. 31		To Balance c/d .. ..		125	<sup>19..</sup> Jan. 1 Dec. 31		By Balance .. ..		100		
							,, Profit and Loss ..		25		
				125						125	
					<sup>19..</sup> Jan. 1		By Balance b/d .. ..		125		

(3)

Dr.		BAD DEBTS.				Cr.	
19.. Dec. 31	To Sundry Debtors ..	100		19.. Dec. 31	By Profit and Loss ..	100	

<i>Dr.</i>				BAD DEBTS RESERVE.		<i>Cr.</i>	
19.. Dec. 31	To Balance c/d .. ..	140		19.. Jan. 1 Dec. 31	By Balance .. ..	80	
					„ Profit and Loss ..	60	
		140				140	
				19.. Jan. 1	By Balance b/d. .. ..	140	

(4)

<i>Dr.</i>		BAD DEBTS.				<i>Cr.</i>	
19.. Dec. 31	To Sundry Debtors ..	40		19.. Dec. 31	By Profit and Loss ..	40	

<i>Dr.</i>				BAD DEBTS RESERVE.		<i>Cr.</i>	
19.. Dec. 31	To Profit and Loss ..	60		19.. Jan. 1	By Balance .. ..	200	
"	" Balance c/d .. ..	140					
		200				200	
				19.. Jan. 1	By Balance b/d. .. ..	140	

(5)

<i>Dr.</i>		BAD DEBTS RESERVE.				<i>Cr.</i>	
19.. Dec. 31	To Balance .. .. c/d	180		19.. Jan. 1 Dec. 31	By Balance .. ..	150	
					„ Profit and Loss ..	30	
		180				180	
				19.. Jan. 1	By Balance .. .. b/d	180	





The Balance Sheets would be the same as in the first way, with the exception of No. 6, which would appear thus—

Sundry Debtors .. ..	£3,200
less Bad Debts Reserve	160
	<u>£3,040</u>

**BAD MONEY.**—No matter how vigilant a cashier may be when receiving money, false coins sometimes pass undetected, and some spurious two-shilling pieces or half-crowns find their way at times into the till. These cannot be re-issued, and must, therefore, be written off. The best way is to credit the Cash Book "*By Bad Money*," and to post the amount to the debit of an account of the same name, closing this account at balancing time by transfer to Profit and Loss in the usual way.

**BALANCE.**—The difference between the two sides of an account. It is written on the lesser side in order to make both sides equal, but it is afterwards brought down to the opposite side, because the balance belongs to the side which is the greater. **Example**—

Dr.		A. BROWN.		Cr.	
19..			19..		
Jan. 1	To Goods ..	225	Mar. 1	By Cash on a/c	100
			June 30	„ Balance c/d	125
		225			225
July 1	To Balance b/d	125			

The letters b/d, c/d, b/f, c/f—abbreviations for brought down and carried down, brought forward and carried forward respectively—are generally added to the word balance. The former indicate whether a balance has come from a previous account, or been taken to a subsequent one; and the latter show whether a balance has come from a preceding page, or has been transferred to a succeeding page.

**A Debit Balance** is the amount by which the debit side of an account exceeds the credit side.

**A Credit Balance** is the amount by which the credit side of an account exceeds the debit side.

**Debit Balances** in a ledger are either assets or losses. If they represent debts or property, they are assets; if they represent expenditure only, they are losses.

**Credit Balances** in a ledger are either liabilities or gains,



## JOURNAL.

Dr.

Cr.

19..							
Jan. 1	Sundry Assets :—						
	Cash .. ..	420					
	Bills Receivable .. ..	175					
	A. Brown .. ..	240					
	C. Smith .. ..	75					
	P. Jones .. ..	22					
	Stock .. ..	2,500					
	Furniture .. ..	100					
	To Balance A/c				3,532		
	Balance Account	3,532					
, 1	To Sundry Liabilities :—						
	Bills Payable .. ..				225		
	R. Sykes .. ..				120		
	F. Barron .. ..				85		
	Capital .. ..				3,102		

This Balance Account, when posted, would be the opposite of the other Balance Account, as the former would be a closing balance account and this one an opening balance account.

**BALANCE BOOK** is a book in which the balances of the various ledger accounts are entered when constructing a monthly (or quarterly) trial balance to ascertain the correctness of the work. It runs page for page with the ledger, and is in tabular form, having a column for each month of the year. This saves the task of re-writing the names each month, besides being useful for reference.

**BALANCE SHEET.**—This is a statement of the assets and liabilities of a business at the date of the annual or periodical balancing, in order to show its financial position. If the assets exceed the liabilities, the firm is solvent, that is, able to pay its debts in full; but if the liabilities exceed the assets, the firm is insolvent, that is, not able to pay its debts. The Balance Sheet also throws light on the stability of the business. If the liquid assets, *i.e.*, the Cash, Investments, Bills Receivable, exceed the amount of the creditors' claims, the position of the firm is sound; if otherwise, the firm is overtrading, that is, buying beyond its financial resources, and is on the road to bankruptcy.

**Capital and Profit and Loss on Balance Sheet.**—Capital is shown on a balance sheet as a liability, being regarded as a debt due by the business to the proprietor of it. In a private firm, the profit or loss is merged in the capital; but in the case of a limited company, the balance sheet shows a separate statement of profit or loss, the reason being that the capital of a company is a fixed item and cannot be touched.

**Difference between a Trial Balance and a Balance Sheet.**—This is a favourite question in examinations, and one that a student is usually unable readily or satisfactorily to answer. There are two principal differences. A Trial Balance is a list of *all* the ledger balances, and includes the gains and losses as well as the assets and liabilities. A Balance Sheet is merely a list of *part* of the ledger balances, viz., the real and personal accounts, that is, the assets and liabilities. A Trial Balance is constructed *before*, and a Balance Sheet *after* the Profit and Loss Account has been prepared. In fact, a Balance Sheet is often described as a classified summary of the debit and credit balances remaining in a ledger after the preparation of a Profit and Loss Account.

**Nomenclature of the Balance Sheet.**—The nomenclature of the Balance Sheet has been the subject of much criticism and controversy. A Balance Sheet was formerly looked upon as an account, and was, therefore, headed with the signs "Dr." and "Cr.," while the words "To" and "By" were prefixed to the liabilities and assets respectively. This is admitted by the great majority of accountants to be incorrect. A Balance Sheet is now regarded as a *statement*, not an *account*, and the contractions "Dr." and "Cr.," and the words "To" and "By" are consequently omitted. Some few accountants, however, still maintain that a Balance Sheet is an account, and one that shows the relation of the business to the proprietor and to outsiders. The headings "Liabilities" and "Assets" are also far from satisfactory. Numerous items appear on a Balance Sheet which cannot be classified as either assets or liabilities. On the assets side we frequently find payments made in advance, a debit balance of Profit and Loss Account, expenditure not wholly written off, a Debenture Discount, a debit balance of Capital Account, etc. On the liabilities side we often meet with reserves, reserve fund accounts, sinking fund accounts, income received in advance, a credit balance of Profit and Loss Account, a Share or Debenture Premium, etc. Some accountants when preparing a Balance Sheet omit the headings "Assets" and "Liabilities" altogether.

**Form of the Balance Sheet.**—The form of the English Balance Sheet is also incorrect. The assets, being debit balances, should appear on the left-hand side of the Balance Sheet; and the liabilities, being credit balances, should appear on the right-hand side. In other words, the assets

and liabilities should be shown on the same sides of the Balance Sheet as the sides they are on in the ledger. In Continental and American systems this error has been rectified.

**Order of Assets and Liabilities.**—There are two different ways of marshalling the assets and liabilities on a balance sheet. In the first method the assets are ranked in the order in which they are available to pay off the liabilities. Now, as the liabilities can only be paid off by cash, it follows that the order in which the assets are available to meet the liabilities must be the cash order, that is, the order in which the assets are convertible into cash. The arrangement is, therefore, Cash, Investments, Bills Receivable, Book Debts, Stock-in-Trade, and Property such as Premises, Plant and Machinery, Horses and Carts, Furniture and Fixtures, etc., then Goodwill, and any prepayments. The liabilities are stated in the order in which they are payable, namely, Bills Payable, Loans, including Bank Overdraft (if any), Creditors, Outstanding Expenses, Partners' Advances, Capital Accounts. In the second way, the fixed assets and liabilities are placed before the floating assets and liabilities, after the style of balance sheet drawn up for limited companies.

**Example.**—From the following particulars draw up, in both ways, the Balance Sheet of A. Shepherd and W. Marshman, who are equal partners, as at 31st December, 19..—

Bills Payable, £247 ;  
 Bills Receivable, £844 ;  
 Stock-in-trade, £1,200 ;  
 Sundry Creditors, £1,140 ;  
 Furniture and Fixtures, £120, *less* depreciation @ 5% p.a. ;  
 Sundry Debtors, £2,800 ;  
 W. Marshman, Capital 1 Jan., £3,440 ;  
 A. Shepherd, Capital 1 Jan., £3,440 ;  
 Cash in hand, £29 ;  
 Cash at Bank, £820 ;  
 Cash on Deposit, £150 ;  
 Loan from T. Bayes, £750 ;  
 Premises, £2,050, *less* depreciation, £50 ;  
 Outstanding Expenses, £32 ;  
 Plant and Machinery, £1,400, *less* depreciation @ 10% p.a. ;  
 Unexpired Insurance, Telephone Rent, and Trade Subscriptions, £27 ;  
 Goodwill, £730, *less* amount written off, £200 ;  
 Investments, £500 Consols @ 87 ;  
 Consignment A/c, £450 ;  
 Reserve for Bad Debts, £140 ;  
 Reserves for Discount—on Debtors, £133, on Creditors, £57 ;  
 Partners' Drawings, £500 each ;  
 Net Profit for year, after charging the above reserves and depreciation and Interest on Capital at 5%, £2,050.



## (1) First Way. BALANCE SHEET AS AT 31ST DECEMBER, 19...

<i>Liabilities.</i>		<i>Assets.</i>	
Bills Payable ..	247	Cash in hand ..	29
Loan (T. Bayes) ..	750	Cash at Bank ..	820
Sundry Creditors ..	1,140	Cash on Deposit ..	150
less Discount Reserve ..	57	Investments—	999
		£500 Consols @ 87 ..	435
Outstanding Expenses ..	32	Bills Receivable ..	844
Capital Accounts:—		Sundry Debtors ..	2,800
W. Marshman, 1 Jan. ..	3,440	less Bad Debts Reserve ..	140
Add Interest ..	172		
" Share of Profit ..	1,025	less Discount Reserve ..	2,660
	4,637		133
less Drawings ..	500	Stock on hand ..	1,200
	4,137	" " Consignment ..	450
A. Shepherd, 1 Jan. ..	3,440	Premises ..	2,050
Add Interest ..	172	less Depreciation ..	50
" Share of Profit ..	1,025		2,000
	4,637	Plant and Machinery ..	1,400
less Drawings ..	500	less Depreciation ..	140
	4,137	Furniture and Fixtures ..	120
		less Depreciation ..	6
		Goodwill ..	730
		less written off ..	200
		Unexpired Values of Insurance, Telephone Rent, and Trade Subscriptions ..	530
			27
	£ 10,386		£ 10,386

## (2) Second Way.

BALANCE SHEET AS AT 31ST DECEMBER, 19...

BAL]

## DICTIONARY OF BOOK-KEEPING

[BAL

<i>Liabilities.</i>				<i>Assets.</i>			
Capital Accounts:—							
W. Marshman, 1 Jan.	..	3,440		Premises ..	..	2,050	2,000
Add Interest ..	..	172		less Depreciation ..	..	50	
" Share of Profit ..	..	1,025		Plant and Machinery ..	..	1,400	1,260
less Drawings ..	..	4,637	4,137	less Depreciation ..	..	140	
A. Shepherd, 1 Jan.	..	3,440		Furniture and Fixtures ..	..	120	114
Add Interest ..	..	172		less Depreciation ..	..	6	
" Share of Profit ..	..	1,025		Goodwill ..	..	730	530
less Drawings ..	..	4,637	4,137	less written off ..	..	200	
Loan (T. Bayes) ..	..	1,140	750	Unexpired Values of Insurance, Telephone Rent, and Trade Subscriptions ..	..		27
Sundry Creditors ..	..	57	1,083	Stock on hand ..	..	1,200	1,650
less Discount Reserve...	..		247	" " Consignment ..	..	450	
Bills Payable ..	..		32	Sundry Debtors ..	..	2,800	
Outstanding Expenses ..	..			less Bad Debts Reserve ..	..	140	
				less Discount Reserve ..	..	2,660	2,527
				Bills Receivable ..	..	133	
				Investments—£500 Consols @ 87 ..	..		844
				Cash at Bank ..	..	820	435
				Cash in hand ..	..	29	
				Cash on Deposit ..	..	150	999
			£ 10,386				£ 10,386

**BANK ACCOUNT.**—The old system of keeping a Bank Account in the ledger is practically dispensed with nowadays, the Cash Book with separate Bank columns having been substituted for it. Some accountants still keep a Bank Account in the General Ledger, but post merely the monthly totals of receipts and payments instead of the details. This, however, is quite unnecessary.

**BANK BALANCE.**—When posting opening entries, the bank (and also the cash) balance should be entered from the journal straight into the Cash Book; and when proving books, care must be taken to include the Cash and Bank balances, as per the Cash Book, in the Trial Balance. Students often forget these, and are advised to make them always the first two items in the Trial Balance, as there is then less likelihood of their being omitted.

**BANK BALANCE SHEET.**—On the following pages is a specimen of a Bank Profit and Loss Account and Balance Sheet, and the student is advised to study it carefully.

**BANK, BOOKS USED IN.**—(See under Books.)

**BANK CHARGES.**—These are small sums deducted by bankers by way of commission when paying Scotch and Irish cheques. Some traders when receiving these cheques enter only the net amount receivable in the Cash Book, and put the charge for collection in the Discount column. This, of course, is incorrect. The full amount of the cheque should be shown in the Cash Book, and the charges for collection, as per the Bank Pass Book, should be totalled at the end of each month and credited in the Cash Book "By Bank Charges." This amount should then be posted to a Ledger account of the same name, and transferred ultimately to Profit and Loss. Bank Charges often include cost of cheque books, or rather the cost of the revenue stamp which each cheque must bear, as few banks charge for the cheque forms.

**BANK CURRENT ACCOUNT.**—This is the running account of the merchant or business man with his banker, the account he is daily paying cheques and money into, and daily drawing cheques upon. It is the practice of most London banks to require a certain substantial balance to be always maintained, and not to allow interest on the account or to charge for keeping it. Provincial and other banks, however, allow interest on current accounts, and charge interest on same when the balance falls below a certain



82

stated amount. The interest when charged or allowed by the banker must be entered in the trader's Cash Book, thus—

<i>Dr.</i>		CASH BOOK.				<i>Cr.</i>	
		Bank Column.				Bank Column.	
To Interest (allowed by Bank) ..				By Interest (charged by Bank) ..			

and must be duly posted to a Bank Interest Account in the General Ledger.

**BANK DEPOSIT ACCOUNT.**—This is money which has been placed with the banker at interest, and which cannot be withdrawn without giving previous notice. This account may be kept in the Cash Book itself in a separate Bank Deposit column, or a Deposit Account may be opened in the Ledger. When money is transferred from Current Account to Deposit Account, the current account must be credited and the deposit account debited, thus—

<i>Dr.</i>		CASH BOOK.				<i>Cr.</i>	
		Bank.				Bank.	
Receipts.		Current A/c.	Deposit A/c.	Payments.		Current A/c.	Deposit A/c.
To Balance .. ..		2,000	1,000	By Deposit A/c (transfer) .. ..		1,000	
" Current A/c (transfer) .. ..			1,000				
To Interest (on Deposit A/c ..		50					

Should money be withdrawn from deposit account for the purpose of adding to the current account, the Deposit Account would be credited and the Current Account debited. The entry would, in fact, be exactly the opposite of the transfer shown above. Sometimes interest on deposit account is credited to the current account. In such cases an entry similar to the last one in the example would require to be made in the trader's Cash Book.

**BANK DRAFTS.**—These are bills of exchange drawn by one banker on another. They are used principally for



remitting money from one part of the United Kingdom to another, and also from one country to another, any person being able to buy from a banker a draft payable in almost any country abroad. As the other banker is notified of the amount of the draft, there is a security against fraud or forgery.

**BANK NOTES.**—These are promissory notes, issued by the Bank of England and a few other English, Scotch and Irish banks, payable to bearer on demand. In book-keeping they are treated as Cash. When being sent by post, they are often cut into halves, one half being forwarded by one post and the other later on. The halves must be pasted together before being presented for payment.

**BANK OVERDRAFT.**—This is the amount owing by a trader to his banker on current account. Life assurance policies are often deposited by customers with their bankers in order to secure an overdraft. No entry is necessary in the Cash Book, as, unlike the case of a Bank Loan where a definite sum is advanced, no money is actually received from the banker, who merely allows the customer to overdraw his account to the amount agreed upon. Should the student meet with a Bank Overdraft in the opening entries of an exercise, the amount must be posted straight from the journal to the credit side of the Cash Book (Bank column) thus: "By Balance (Overdraft)." When the Cash Book is balanced, the overdraft, if not paid off, will be brought down as a balance on the credit side, and must be entered in the credit column of the Trial Balance. It must also be shown as a liability on the Balance Sheet.

**BANK PASS BOOK OR BANK BOOK.**—This is a detailed account of the transactions which the trader has had with his banker, a record of the amounts he has paid into, and withdrawn from, the Bank, and by means of which he checks the Bank Account in his own Cash Book. There are two ways in which the Pass Book is written up. Sometimes it is the Bank in account with the customer, and sometimes it is the customer in account with the Bank. In some cases, therefore, the entries will appear on the same sides of the Pass Book as the sides they are on in the trader's Cash Book, and sometimes just the reverse. The entries are *primâ facie* binding on the banker.

**BANK POST BILLS.**—These are promissory notes to order for any sum from £10 to £1,000, payable at 7 or 60 days

after sight without days of grace. They are issued by the Bank of England, and may be obtained by simply depositing the amount for which the bill is required, the use of the money being the Bank's remuneration. These bills originated in 1738 in consequence of the frequent robberies of the mails. If a robbery took place, the owner of the bill had time to give notice of it, and thus prevent payment to any unauthorised person. Owing to the establishment of branch banks throughout the kingdom, the use of these bills has greatly diminished. They appear on the liabilities side in the Bank Return as "Seven day and other bills."

### Example—

Bank of England Post Bill.

No.—

London, 1 Jan., 19..

At seven days' sight I promise to pay this my Sole Bill of Exchange to Reginald J. Porters, or order, two hundred pounds sterling, value received of Fred Smith.

For the Governor and Company  
of the Bank of England,

£200.

J——— N———.

**BANKRUPT.**—One who has been declared insolvent by the Bankruptcy Court.

**BANKRUPTCY.**—(See STATEMENT OF AFFAIRS.)

**BENEFICIARY.**—One who benefits under a will.

**BILL BROKER.**—One who buys, sells, and discounts bills of exchange.

**BILL OF EXCHANGE.**—A Bill of Exchange is defined by the Bills of Exchange Act, 1882, as "an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to bearer." An instrument which does not comply with these conditions, or which orders any act to be done in addition to the payment of money, is not a bill of exchange.

**Advantages of Bills.**—There are three principal advantages of a bill—

(1) It is a legal acknowledgment of debt, coupled with a definite promise to pay. All the preliminaries such as having given the order for the goods, having received the goods,

etc., are taken for granted, and the creditor can thus sue on the bill itself.

(2) It is a negotiable instrument, that is, something legally transferable, and can, therefore, be used by the creditor to pay his own debts.

(3) It can be turned into money by being discounted, that is, cashed before maturity. Of course, the holder will not obtain the full value of the bill; he will get only a portion of it called the present worth. But even so, a certain sum of money at once, in cash if necessary, may be infinitely more valuable to the trader than perhaps the full amount of the bill in three or four months' time.

**Kinds of Bills.**—There are two kinds of bills, Inland and Foreign. An Inland Bill is a bill which is or on the face of it purports to be (a) both drawn and payable within the British Islands, or (b) drawn within the British Islands upon some person resident therein. For the purposes of the Act, the term British Islands includes the Isle of Man and the Channel Islands. Any other bill is a Foreign Bill.

**Stamp Duty.**—The *ad valorem* stamp duty on inland bills of exchange is as follows—

Where the amount does not exceed	£10	..	..	2d.
Exceeding	£10 but not exceeding	£25	..	.. 3d.
"	£25	" "	"	£50 .. .. 6d.
"	£50	" "	"	£75 .. .. 9d.
"	£75	" "	"	£100 .. .. 1s.

When the amount exceeds £100, 1s. for the first £100, and an additional 1s. for every £100 or fraction of a £100. When bills are drawn payable on demand (which includes those payable on presentation or at sight) or within three days after date or sight, no matter what the amount, the stamp duty is only 2d.; and a 2d. adhesive stamp may be used, provided the stamp is affixed at the time of issuing the bill and is properly cancelled by the drawer. In all other cases bills must be written on paper bearing an impressed stamp of the proper value. Any person dealing with a bill of exchange improperly stamped renders himself liable to a penalty of £10.


A foreign bill, both drawn and expressed to be payable out of the United Kingdom, but which is actually paid, indorsed, or negotiated in the United Kingdom, is stamped as an inland bill when the amount does not exceed £50.

Exceeding £50, but not exceeding £100, 6d.

„ £100, 6d. for every £100 or fraction of a £100.

The stamp may be adhesive, and must be affixed by the person first dealing with the bill.

**Form of Bill.**—No particular form of words is necessary, but the following is the usual form—

£350 due 4 April, 19...		LONDON,	
		1 Jan., 19...	
	Three months	Accepted payable at the Joint Stock Bank, Limited, Holborn Branch. A. Shepherd.	after date pay to
	Messrs. Marsh order the sum fifty pounds		man & Jones of three hundred and value received.
To Mr. A. Shepherd.		R. Smith.	

**Parties to a Bill.**—There are three parties to a bill—

(a) **Drawer**, the person who writes out the bill, *i.e.*, the creditor to whom the money is owing.

(b) **Drawee**, the person on whom a bill is drawn, and who, after acceptance, is called the **acceptor**.

(c) **Payee**, the person to whom the money is payable. Sometimes the drawer and payee are one and the same person, as when the drawer asks for the money to be paid to himself. In the example given, R. Smith is the drawer, A. Shepherd the drawee, Marshman & Jones the payees.

**Draft and Acceptance.**—Before acceptance the bill is called a draft, which may, therefore, be defined as the unaccepted form of a bill of exchange. But after the drawee has written his signature across the face of it, it is termed an acceptance. It is called a bill at either stage.

**Domicile.**—When the drawee in accepting a bill states on it the place of payment, the bill is said to be domiciled. A bill is not invalid by reason of the fact that no place of payment is mentioned on it, as the bill is then payable at the acceptor's usual place of business.

**Tenor of Bill.**—Bills vary greatly as to the times at which they are drawn. They are drawn payable at sight, at presentation, on demand, after date, after sight, etc.

**Long Bills** are those having a long currency or period to run, *i.e.*, those from two months upward.

**Short Bills** are those having a short currency or period to run, *i.e.*, those payable on demand or in less than ten days.

**Sum Payable.**—The sum payable by a bill is a sum certain within the meaning of the Act, although it is required to be paid—

(a) With interest.

(b) By stated instalments.

(c) By stated instalments, with a provision that upon default in payment of any instalment the whole shall become due.

(d) According to an indicated rate of exchange, or according to a rate of exchange to be ascertained as directed by the bill.

Where the sum payable is expressed in words and also in figures, and there is a discrepancy between the two, the sum denoted by the words is the amount payable.

Where a bill is expressed to be payable with interest, unless the bill provides otherwise, such interest runs from the date of the bill, or, if the bill is undated, from the issue of it.

**Bill Payable on Demand.**—A bill is payable on demand—

(a) Which is expressed to be payable on demand, or at sight, or on presentation; or

(b) In which no time for payment is expressed.

Where a bill is accepted or indorsed when it is overdue, it is deemed a bill payable on demand as regards any such acceptor or indorser.

**Bill Payable at a Future Time.**—A bill is payable at a determinable future time within the meaning of the Act which is expressed to be payable—

(1) At a fixed period after date or sight.

(2) On or at a fixed period after the occurrence of a specified event which is certain to happen, though the time of happening may be uncertain.

An instrument expressed to be payable on a contingency is not a bill, and the happening of the event does not cure the defect. Thus a bill payable at a person's death or at a certain time after his death would be valid; but a bill payable on a person's marriage would not be valid, even though the marriage took place.

**Date of Bill.**—A bill is not invalid by reason of its not being dated, being ante-dated, post-dated, or dated on a Sunday.

Where a bill expressed to be payable at a fixed period



after date is issued undated ; or where the acceptance of a bill payable at a fixed period after sight is undated, any holder may insert therein the true date of issue or acceptance, and the bill is then payable accordingly. And should the holder in good faith and by mistake insert a wrong date, the bill cannot be avoided, but is still payable as if the date so inserted had been the true date.

**Calculation of Time of Payment and Days of Grace.**—All bills except those payable on demand (which includes those at sight or on presentation) are subject to days of grace ; that is, three extra days must be allowed for payment beyond the date mentioned in the bill. These three days used to be customary, and the law has now made them compulsory ; and the bill is due and payable on the last day of grace. When the last day of grace falls on Sunday, Christmas Day, Good Friday, or a day appointed by Royal Proclamation as a public fast or thanksgiving day, the bill is due and payable on the *preceding* business day. When the last day of grace is a bank holiday under the Bank Holidays Act, 1871, and other Acts, or when the last day of grace is a Sunday and the second day of grace is a bank holiday, the bill is due and payable on the *succeeding* business day. If days of grace are not to be allowed, this fact must be specially mentioned in the bill by inserting the phrase “without days of grace,” or by adding the word “fixed” after the time stated, as “on the 4th June fixed.”

Where a bill is payable at a fixed period after date, after sight, or after the happening of a specified event, the time of payment is determined by excluding the day from which the time is to begin to run and by including the day of payment.

Where a bill is payable at a fixed period after sight, the time begins to run from the date of the acceptance if the bill is accepted, and from the date of noting or protest if the bill be noted or protested for non-acceptance, or for non-delivery.

The term “month” in a bill means calendar month. Thus bills drawn on Dec. 28th, Dec. 29th, Dec. 30th, Dec. 31st at 2 months would all mature on the same date, namely, March 3rd.

**Case of Need.**—The drawer of a bill, and any indorser, may insert in the bill the name of a person to whom the holder may resort in case of need, that is, in case the bill is



dishonoured by non-acceptance or non-payment. Such person is called the **referee in case of need**. It is in the option of the holder to resort to the referee in case of need or not as he may think fit.

**Acceptance.**—The acceptance of a bill is the signification by the drawee of his assent to the order of the drawer. After the bill is drawn, it is sent, either by the drawer or the payee, to the drawee for acceptance. This is done by the drawee writing his signature across the face of the bill. The word “accepted” is generally prefixed, but is not legally necessary. It is the common practice to obtain acceptance as soon as possible, though there is no legal necessity until any time before the date of payment, unless the bill is payable after sight or expressly stipulates that it shall be presented for acceptance, in which cases it is necessary in order to fix the date of maturity.

By the Act an acceptance is invalid unless it complies with the following conditions—

(a) It must be written on the bill and be signed by the drawee. The mere signature of the drawee without additional words is sufficient.

(b) It must not express that the drawee will perform his promise by any other means than the payment of money.

A bill may be accepted before it has been signed by the drawer, when it is overdue, or after dishonour by non-acceptance or non-payment. Should a drawee refuse to accept a bill payable after sight and then subsequently agree to do so, the holder is entitled to make the date of acceptance the date of the first presentment.

An acceptance may be either (a) general or (b) qualified.

A **general acceptance** assents without qualification to the order of the drawer. A **qualified acceptance** in express terms varies the effect of the bill as drawn. In particular, an acceptance is qualified which is—

(a) **conditional**, that is to say, which makes payment by the acceptor dependent on the fulfilment of a condition stated therein ;

(b) **partial**, that is, an acceptance to pay part only of the amount for which the bill is drawn ;

(c) **local**, that is, an acceptance to pay only at a particular specified place. An acceptance to pay at a particular place is a general acceptance, unless it expressly states that the bill is to be paid there only and not elsewhere :

(d) **qualified as to time**, as when a bill for two months is accepted for four ;

(e) **the acceptance of one or more of the drawees**, but not of all.

The holder of a bill may refuse to take a qualified acceptance, and if he does not obtain an unqualified acceptance, he may treat the bill as dishonoured by non-acceptance.

**Dishonour by Non-acceptance.**—When a bill is duly presented for acceptance and is not accepted within the customary time (usually twenty-four hours), it must be treated as dishonoured by non-acceptance, or else the holder will lose his right of recourse against the drawer and indorsers.

**Delivery of Bill.**—A bill of exchange, although complete in form, is, like a deed, of no effect against the parties to it until it has been properly delivered. If, therefore, a bill of exchange gets into circulation through being stolen from the drawer, acceptor, or indorsers, they will not be liable upon it except to a holder in due course.

**Negotiable Instruments.**—Partly by custom and partly by statute law certain documents, including bills of exchange, have acquired negotiability. The characteristics of negotiable instruments are—

(1) The property in them, and not merely the possession, passes by delivery.

(2) The holder in due course is not prejudiced by any defects of title on the part of the transferor or any previous holder, even though such prior party may have stolen the bill.

(3) The holder can sue upon them in his own name.

**Negotiation of Bill.**—A bill being a negotiable instrument may be transferred from one person to another, who then acquires all the rights in it. Any holder may transfer a bill unless the bill contains words prohibiting its transfer (such as a restrictive indorsement). If a bill is payable to bearer, it is transferable simply by delivery ; if payable to order, it is transferable by indorsement and delivery ; that is, it requires the holder's signature on the back of it before being passed on. In any case, it is always advisable to obtain the indorsement of a transferor in order to make him liable as a party to the bill, which he would not be otherwise.

**Indorsement.**—The requisites of a valid indorsement are that it must be written on the bill itself and be signed by

the indorser. The simple signature of the indorser without additional words is sufficient. The number of indorsements may be so numerous that the space on the back of the bill is insufficient to contain all the signatures. In this case a slip of paper, called an **allonge**, may be pasted on to the bill to receive any further indorsements. An indorsement written on an allonge, or on a "copy" of a bill, is deemed to be written on the bill itself.

Where, in a bill payable to order, the payee or indorsee is wrongly designated, or his name is misspelt, he may indorse the bill as therein described, adding, if he thinks fit, his proper signature.

An indorsement may be in blank or special. It may also contain terms making it restrictive. An **indorsement in blank** specifies no indorsee, and a bill so indorsed becomes payable to bearer. A **special indorsement** specifies the person to whom, or to whose order, the bill is to be payable, as "pay C. D. or order." A **restrictive indorsement** prohibits the further negotiation of the bill, as "pay C. D. only," or "pay C. D. for the account of E.," or "pay C. D. or order for collection." Where any person is under obligation to indorse a bill in a representative capacity, he may indorse the bill in such terms as to negative personal liability. The **indorsement "sans recours"** (without recourse to me) is thus often used by persons who have been acting as agents and not principals.

**Consideration.**—The words "for value received" are usually written in a bill, but are not legally necessary, as a bill is not invalid by reason that it does not specify the value given, or that any value has been given therefor. Moreover, every party whose signature appears on a bill is *primâ facie* deemed to have become a party thereto for value. This presumption, however, may be rebutted by evidence to the contrary. Valuable consideration for a bill may be constituted by—

(a) Any consideration sufficient to support a simple contract;

(b) An antecedent debt or liability, whether the bill is payable on demand or at a future time.

An **accommodation party** to a bill is a person who has signed a bill as drawer, acceptor, or indorser, without receiving value for it, and for the purpose of lending his name to some other person. An accommodation party is liable on the bill to a holder for value; and it is immaterial whether, when

such holder took the bill, he knew such party to be an accommodation party or not.

If a bill which has been previously accepted for value received is ultimately handed to a person as a gift, the holder cannot recover the amount from his immediate transferor as no consideration has passed; he can, however, recover it from any of the other parties to the bill. If a bill be given for a wagering or gaming debt, the holder cannot sue the loser upon it as the consideration is illegal. But if the bill is transferred for value to a third person who is unaware of the gaming transaction, such third person can enforce payment.

**Holder in Due Course.**—A holder in due course is a holder who has taken a bill, complete and regular on the face of it, under the following conditions, namely—

(a) That he became the holder of it before it was overdue, and without notice that it had been previously dishonoured, if such was the fact.

(b) That he took the bill in good faith and for value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it.

Every holder of a bill is *primâ facie* deemed to be a holder in due course.

**Presentation for Payment.**—Except in a few special instances, a bill must be duly presented for payment, otherwise the drawer and indorsers will be discharged from their liability. A bill payable on demand must be presented within a “reasonable” time. A bill not payable on demand must be presented on the due date at the place of payment or address of drawee or acceptor mentioned in the bill; or if this is not specified, at the drawee’s or acceptor’s place of business if known; and if not, at his ordinary residence if known; and if not, at his last known place of business or residence, or wherever he can be found. Where authorised by agreement or usage, a presentment through the Post Office is sufficient. Presentation for payment is not necessary in order to make an *acceptor* liable.

**Dishonour by Non-Payment.**—A bill is dishonoured by non-payment (a) when it is duly presented for payment and payment is refused or cannot be obtained, or (b) when presentment is excused by the Act and the bill is overdue and unpaid. When a bill is dishonoured by non-payment, an

immediate right of recourse against the drawer and indorsers accrues to the holder. When a bill is dishonoured by non-acceptance or non-payment, notice of dishonour must be given to the drawer and each indorser, or they will be discharged from their obligations. The notice may be given in writing or by personal communication. The return of a dishonoured bill to the drawer or an indorser is, in point of form, deemed a sufficient notice of dishonour. Notice must be given immediately after dishonour or within a reasonable time. Each party who receives notice of dishonour is allowed reasonable time to give notice to antecedent parties to the bill. Where a notice of dishonour is duly addressed and posted, the sender is deemed to have given due notice of dishonour, notwithstanding any miscarriage by the Post Office. There are, however, certain cases mentioned in the Act in which notice of dishonour is dispensed with.

**Noting and Protest of Bill.**—Where an inland bill has been dishonoured, it may, if the holder think fit, be noted for non-acceptance or non-payment as the case may be; but it is not legally necessary in order to preserve the holder's rights against the drawer and indorsers. It is often done, however, in order to prevent any subsequent dispute as to the dishonour.

Where a foreign bill has been dishonoured by non-acceptance, it must be duly protested for non-acceptance; and where such a bill, which has not been previously dishonoured by non-acceptance, is dishonoured by non-payment, it must be duly protested for non-payment; otherwise the drawer and indorsers are discharged. A bill which has been protested for non-acceptance may be subsequently protested for non-payment. Provided a bill is duly noted on the day of its dishonour, or on the next succeeding business day, the protest may be extended subsequently as of the same date as the noting. A bill must be protested at the place where it is dishonoured, unless it has been presented through the post office, when it may be protested at the place to which it is returned by post. Where the acceptor of a bill becomes bankrupt or insolvent or suspends payment before it matures, the holder may cause the bill to be protested for better security against the drawer and indorsers. The noting and protest is the only recognised evidence of dishonour in many foreign courts.



A **Protest** must contain a copy of the bill, and must be signed by the notary making it, and must specify—

(a) The person at whose request the bill is protested ;

(b) The place and date of protest, the cause or reason for protesting the bill, the demand made, and the answer given, if any, or the fact that the drawee or acceptor could not be found.

It is not necessary to protest a bill in order to make the *acceptor* liable.

**Liability of Drawer.**—The drawer of a bill, by drawing it, engages that on due presentment it shall be accepted and paid according to its tenor, and that if it be dishonoured he will compensate the holder or any indorser who is compelled to pay it, provided that the requisite proceedings on dishonour be duly taken.

**Duty of Holder.**—Where the holder of a bill presents it for payment, he must exhibit the bill to the person from whom he demands payment, and when a bill is paid the holder must forthwith deliver it up to the party paying it.

**Damages on Dishonour.**—Where a bill is dishonoured, the measure of damages, deemed to be liquidated damages, is as follows—

(1) The holder may recover from any party liable on the bill, and the drawer who has been compelled to pay the bill may recover from the acceptor, and an indorser who has been compelled to pay the bill may recover from the acceptor or from the drawer, or from a prior indorser—

(a) The amount of the bill ;

(b) Interest thereon from the time of presentment for payment if the bill is payable on demand, and from the maturity of the bill in any other case ;

(c) The expenses of noting, or, when protest is necessary, and the protest has been extended, the expenses of protest.

(2) In the case of a bill which has been dishonoured abroad, in lieu of the above damages, the holder may recover from the drawer or an indorser, and the drawer or an indorser who has been compelled to pay the bill may recover from any party liable to him, the amount of the re-exchange, with interest thereon until the time of payment.

**Discharge of Bill.**—A bill is discharged by payment in due course by or on behalf of the drawee or acceptor. “Payment in due course” means payment made at or after the maturity of the bill to the holder thereof in good faith and



without notice that his title to the bill is defective. Where an accommodation bill is paid in due course by the party accommodated, the bill is discharged. When the acceptor of a bill is or becomes the holder of it at or after its maturity, in his own right, the bill is discharged. Where a bill is intentionally cancelled by the holder or his agent, and the cancellation is apparent thereon, the bill is discharged.

**Alteration of Bill.**—Where a bill or acceptance is materially altered without the assent of all parties liable on the bill, the bill is avoided except as against a party who has himself made, authorised, or assented to the alteration, and subsequent indorsers. In particular the following alterations are material, namely, any alteration of the date, the sum payable, the time of payment, the place of payment, and where a bill has been accepted generally, the addition of a place of payment without the acceptor's assent.

**Acceptance for Honour *supra* Protest.**—Where a bill of exchange has been protested for dishonour by non-acceptance, or protested for better security, and is not overdue, any person, not being a party already liable thereon, may, with the consent of the holder, intervene and accept the bill *supra* protest, for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn. A bill may be accepted for honour for part only of the sum for which it is drawn. An acceptance for honour *supra* protest, in order to be valid, must (a) be written on the bill, and indicate that it is an acceptance for honour, (b) be signed by the acceptor for honour. Where an acceptance for honour does not expressly state for whose honour it is made, it is deemed to be an acceptance for the honour of the drawer. Where a bill payable after sight is accepted for honour, its maturity is calculated from the date of the noting for non-acceptance, and not from the date of the acceptance for honour.

Where a dishonoured bill has been accepted for honour *supra* protest, or contains a referee in case of need, it must be protested for non-payment by the drawee (if he refuses payment on presentation of the bill to him) before it is presented for payment to the acceptor for honour, or referee in case of need. When a bill of exchange is dishonoured by the acceptor for honour, it must be protested for non-payment by him.

**Payment for Honour *supra* Protest.**—Where a bill has been protested for non-payment, any person may intervene and pay it *supra* protest for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn. Payment for honour *supra* protest, in order to operate as such and not as a mere voluntary payment, must be attested by a notarial act of honour which may be appended to the protest or form an extension of it.

**Lost Bill.**—Where a bill has been lost before it is overdue, the person who was the holder of it may apply to the drawer to give him another bill of the same tenor, giving security to the drawer if required to indemnify him against all persons whatever in case the bill alleged to have been lost is found again. If the drawer, on request, refuses to give such duplicate bill, he may be compelled to do so.

**Forgery.** No title to a bill can be made through forgery. A transferee acquires no rights through a bill which bears a forged signature of either drawer, acceptor, or endorser, even though he had no knowledge of the forgery. He can, however, demand repayment of the amount he has paid for the bill from his transferor.

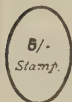
**Bill in a Set.**—Where a bill is drawn in a set, each part of the set being numbered, and containing a reference to the other parts, the whole of the parts constitute one bill. The acceptance may be written on any part, and it must be written on one part only. Any person who accepts, or any person who indorses, more than one part will be liable on the said parts as if they were separate bills. With these exceptions, where any one part of a bill drawn in a set is discharged by payment or otherwise, the whole bill is discharged.

**Foreign Bills.**—By Section 4 of the Act a foreign bill is any other bill which does not come within the definition of an inland bill. It is usually defined as a bill drawn in one country, but payable in another. Such bills generally bear the words "value received," or "value in account," and are drawn in sets of three, called "**vias.**" Each is numbered, and expressed to be payable only on condition that the other two are unpaid. The three forms are sent off at different times, in order to diminish the risk of losing the bill, and to prevent delay arising from such loss. The following is a common form of foreign bill—

Exchange for £500.

London,

1 Feb., 19..



At forty days after sight pay this First of Exchange (Second and third of the same date and tenor unpaid) to M. Henri Barthelmeh or order five hundred pounds for value received.

To Messrs. Frere et Cie,  
Paris.

JOHN SMITH.

The amount of a foreign bill is often stated in the currency of the country where it is payable. Where a bill is drawn out of, but payable in, the United Kingdom and the sum payable is not expressed in the currency of the United Kingdom, the amount, in the absence of some express stipulation, is calculated according to the rate of exchange for sight drafts at the place of payment on the day the bill is payable.

**Usance.**—Foreign bills are usually made payable at one or more “usances,” *i.e.*, time of payment as fixed by custom. For instance, the usance between London and New York is sixty days after sight.

**After Sight.**—Foreign bills are usually made payable “after sight”; and in this case the acceptor must date his acceptance, as the time of payment begins to run from the date of such acceptance.

**Stamp.**—A foreign bill need not be stamped before it is issued; but it must be stamped before it is negotiated in the British Isles.

**Documentary Bill.**—(See DOCUMENTARY BILL.)

**Clean Bill.**—One to which no documents are attached.

### NOTES ON BILLS OF EXCHANGE.

**How to Distinguish between Bills Receivable and Bills Payable.**—(1) By the acceptor—

(a) If I accept, it is to me a Bill Payable.

(b) If someone else accepts, it is to me a Bill Receivable.

To accept a bill does not mean, as many students seem to think, to *receive* it, but to *agree to pay* it.

(2) By the drawer—

(a) Bills I draw are to me Bills Receivable.

(b) Bills drawn on me are to me Bills Payable.

(3) When the acceptor or drawer is not mentioned—

(a) If the bill comes in it is a Bill Receivable.

(b) If the bill goes out it is a Bill Payable.

A Bill Receivable may also go out, and a Bill Payable may also come in; but definite information must be given in these cases. The above is the general rule.

**Note.**—A Bill Receivable and a Bill Payable are not two separate documents, but one and the same document looked at from different points of view. The person who is to receive the money calls it a Bill Receivable, and the person who has to pay the money calls it a Bill Payable.

**Journal Entries for Bills.**—(1) Bills Receivable come in and are debited thus—

(a) Bill Receivable	<i>Dr.</i>
To Giver	<i>Cr.</i>

Sometimes we receive one person's bill from another person, but we must nevertheless credit the *Giver*, not the person whose name is on the bill.

(2) Bills Payable go out and are credited thus—

(b) Person to whom Bill is given	<i>Dr.</i>
To Bill Payable	<i>Cr.</i>

(3) A Bill Receivable, after coming in to me, may be sent out again by me to any one to whom I myself owe money, thus—

(c) Person to whom the Bill is given	<i>Dr.</i>
To Bill Receivable	<i>Cr.</i>

Because a Bill Receivable is paid away again to someone else, it is not turned into a Bill Payable. A bill to be *my* Bill Payable must be my own acceptance. The above bill (c) was someone else's acceptance when it came in to me, and, therefore, remains someone else's acceptance when it goes out again.

**Bills with Discount.**—Sometimes Discount is allowed when bills are received and given. The above journal entries would be, in that case, as follows—

(a) Bill Receivable	<i>Dr.</i>
Discount	<i>Dr.</i>
To Giver	<i>Cr.</i>

(b) Person to whom bill is given	<i>Dr.</i>
To Bill Payable	<i>Cr.</i>
„ Discount	<i>Cr.</i>

(c) Person to whom bill is given	<i>Dr.</i>
To Bill Receivable	<i>Cr.</i>
„ Discount	<i>Cr.</i>

**Bills with Interest.** Sometimes Interest is charged when bills are received and given. The journal entries, in that case, would be as follows—

(a) Bill Receivable *Dr.*  
       To Person *Cr.*  
       Person *Dr.*  
       To Interest *Cr.*

(b) Person *Dr.*  
       To Bill Payable *Cr.*  
       Interest *Dr.*  
       To Person *Cr.*

Discount goes on the same side as the bill and in the same entry. Interest goes on the opposite side to the bill and in a separate entry. Discount *decreases* the amount payable or receivable, whereas interest *increases* it.

**Cash Book Entries for Bills.** (1) Bills Receivable and Bills Payable come into the Cash Book when they are received or paid at maturity, that is, the due date, allowing for the three days of grace, thus—

<i>Dr.</i>	CASH BOOK.		<i>Cr.</i>
Receipts.	Cash or Bank.	Payments.	Cash or Bank.
To Bill Receivable.	Amount of Bill.	By Bill Payable.	Amount of Bill.

(2) A Bill Receivable also comes into the Cash Book when it is **discounted**, that is, turned into money before the due date, thus—

<i>Dr.</i>	CASH BOOK.			
Receipts.	Discount.	Cash or Bank.	Payments.	Cash or Bank.
To Bill Receivable	Amount of Discount.	Net amount received.		
Or To Bill Receivable		Full Amount of Bill.	By Bankers' Discount or Discount on Bills	Amount of Discount.

In discounting a bill, the bill is spoken of by its **face value**, that is, the amount written on it. Thus, "discounted a bill for £100 and was charged £1 5s. discount," does not mean that we received £100, as so many students think, but merely that £100 was the value of the bill discounted. What we should receive in this case would, therefore, be the difference, namely, £98 15s.

(3) Bills Receivable and Payable also come into the Cash Book when they are received or paid before maturity, under **Rebate**, that is, a Cash Discount allowed for payment before the due date, thus—

Dr.		CASH BOOK.				Cr.	
Receipts.	Dis- count.	Cash or Bank.	Payments.	Dis- count.	Cash or Bank.		
To Bill Receivable.	Amount lost.	Net Amount Receiv'd.	By Bill Payable.	Amount gained.	Net Amount Paid.		

The words "**met**," "**redeemed**," "**honoured**," "**lifted**," "**taken up**," "**retired by cheque**," all signify the same thing, namely, that the bill has been received or paid.

The student must not be misled by the word "**paid**." Thus "**paid Brown bill £50 on account**," is *not* a Cash Book entry. We can pay an account (1) by bill, (2) by goods, (3) by cash, but only *Cash* payments come into the Cash Book.

Some students when they meet with a phrase like the following: "**Received from A. Brown bill for £50**," enter it in the Cash Book; but this is quite wrong. When bills first come in or go out, they are not money, but only *promises* of money, and they do not go into the Cash Book until they are received or paid in money.

**Renewing Bills.**—To renew a bill is to cancel the bill already in circulation, usually before maturity, in order to prevent dishonour, and to give a new bill payable at a later date, interest being generally charged for this extension of time. The old bill must be cancelled, as the stamp duty only covers the bill up to maturity; and if we carry a bill on after this date, we must make a fresh payment of stamp duty, which means buying a new bill form altogether, as the



stamp is impressed on the form. When bills are renewed before dishonour, three journal entries are required.

(a) When a Bill Payable is renewed with interest—

- |                           |            |
|---------------------------|------------|
| (1) Bill Payable          | <i>Dr.</i> |
| To Creditor               | <i>Cr.</i> |
| (to cancel the old bill). |            |
| (2) Creditor              | <i>Dr.</i> |
| To Bill Payable           | <i>Cr.</i> |
| (for the new bill).       |            |
| (3) Interest              | <i>Dr.</i> |
| To Creditor               | <i>Cr.</i> |
| (for loss of interest).   |            |

(b) When a Bill Receivable is renewed with interest—

- |                           |            |
|---------------------------|------------|
| (1) Debtor                | <i>Dr.</i> |
| To Bill Receivable        | <i>Cr.</i> |
| (to cancel the old bill). |            |
| (2) Bill Receivable       | <i>Dr.</i> |
| To Debtor                 | <i>Cr.</i> |
| (for the new bill).       |            |
| (3) Debtor                | <i>Dr.</i> |
| To Interest               | <i>Cr.</i> |
| (for gain of interest).   |            |

If bills are renewed after dishonour, only the last two entries are required in each case, that is, in addition to the cancelling entry either in the Journal or Cash Book.

In exercises the student is sometimes given only the amounts of the two bills, and must find the interest for himself. This is merely the difference between the two amounts. In other cases, the student is given the amount of the old bill and the amount of the interest, and must find the value of the new bill. This is simply the amount of the old bill plus the interest.

Sometimes a bill is renewed for only part of the old amount, the balance being paid in cash. Students must remember that the Cash is being paid off the *account*, not off the *bill*, as we cannot partly pay a bill. For instance, suppose I had given Brown & Co. a bill payable for £500, which I find afterwards I shall be unable to meet at

maturity. I then arrange to pay Brown £200 and to give him a new bill with interest for the balance. Four entries would be required, the usual three journal entries for renewing a bill payable, and also a Cash Book entry. And the point to remember is that the Cash Book entry would be "By Brown, £200," not "By Bill Payable, £200." These remarks apply also to Bills Receivable renewed in part together with a cash payment by the debtor. The Cash Book entry would be "To Debtor," not "To Bill Receivable." Students should particularly note this, as it is a very frequent error.

**Dishonoured Bills.**—There is perhaps no greater stumbling-block to a book-keeping student than bills, especially dishonoured bills. Even advanced students have very often only a dim comprehension of them. There is hardly anything an advanced student dislikes more in an examination paper than an elaborate bill problem involving dishonoured bills. But the difficulty, though great, is not insurmountable. One way of overcoming it is to try and grasp clearly the position of affairs, and another way is practice in examples of this kind of bill.

When we receive a bill, three things may be done with it. We may—

- (1) Keep it until it is due ;
- (2) Discount it, that is, cash it before it is due ;
- (3) Pay it away to one of our creditors.

Now, obviously, there cannot be one fixed entry for a dishonoured bill. It depends entirely upon what has been done with the bill, and in an exercise the bill should always be traced, if possible.

At maturity a bill may be payable either at the acceptor's place of business or at his bankers. In the first case, we should present the bill at his office ourselves ; in the second case, we should pay it into our bankers (debiting the Bank column in the Cash Book) to present at the acceptor's bank : this is called **paying in for collection**. And, in either case, if payment were refused, the bill would be said to be dishonoured.

Dishonoured bills are often noted, and the notary public's fees for re-presenting the bill and certifying its dishonour, called **noting charges**, must be paid by the holder of the bill, who is entitled to recover them from the acceptor or from the person from whom he received the bill.

(1) If the dishonoured bill has not gone through the Cash Book, then Journal entry—

Acceptor	<i>Dr.</i>
To Bill Receivable	<i>Cr.</i>
(to cancel the bill).	

For the noting charges a Cash Book entry—

<i>Dr.</i>	CASH BOOK.	<i>Cr.</i>
Receipts.	Payments.	Cash Column.
	By Acceptor.	Amount Paid.

(2) If the dishonoured bill has gone through the Cash Book, either—

(a) By being discounted ; or

(b) By being paid in for collection ; then on credit side of Cash Book if the bank gets the bill noted—

BANK COLUMN.	
By Acceptor.	Amount of Bill plus noting charges.

If we ourselves get the bill noted, then—

	CASH COLUMN.	BANK COLUMN.
By Acceptor.	Amount of Noting Charges.	Amount of Bill.

(3) If the dishonoured bill is one which has previously been paid away by me to one of my creditors, then Journal entry—

Acceptor	<i>Dr.</i>
To Creditor	<i>Cr.</i>
(for amount of bill plus noting charges).	

**Note.**—A dishonoured bill, and the noting charges (if any), are always charged or debited to the acceptor if we obtained the bill direct from him ; if not, to the person from whom we received the bill.

The following examples, specially compiled from the examination papers of the various examining bodies, include every difficulty in bills, and should, together, with the keys and notes which follow, prove of very great assistance to the student.

## BILLS OF EXCHANGE.

## Example No. 1.

Record the following transactions in Journal and Cash Book—

1. Gave Brown & Co. a Bill at 2 months for £80.
2. Received Smith & Co.'s Bill at 3 months for £100.
3. Handed Brown & Co. my Acceptance at 3 months for £120.
4. Brown & Co. forward me their Acceptance at 2 months for £95.
5. Drew on Smith Bros. for £285, allowing them discount £15.
6. Accepted Jones Bros.' draft for £190, being allowed discount £10.
7. F. Smith drew on me at 2 months for £95.
8. My customer J. Roberts handed me a Promissory Note for £50 lent him.
9. Gave M. Robinson a P/N for £200 borrowed from him.
10. Sent F. Brown's Acceptance for £160 to Smart Bros.
11. Received F. Jones' Acceptance for £90 from Stiff & Co.
12. Drew on Jones & Co. at 2 months for £500 payable to Smith Bros.
13. Accepted draft drawn on us at 3 months for £150 by Bell & Co. in favour of J. Kent.
14. Bought goods £250 from Smart & Co. for 2 months' Bill less 5%.
15. Sold goods £150 to Taylor & Co. for 2 months' Bill less 2½%.
16. Jones Bros.' Acceptance for £200 duly met to-day.
17. My Acceptance to Jones Bros. for £150 duly honoured.
18. Lamb & Co.'s P/N for £50 duly taken up.
19. My P/N to Bentley & Co. for £75 redeemed to-day.
20. Paid Bills in hand into Bank for collection, £250.
21. Discounted Brown & Co.'s Acceptance for £200, discount £2 10s.
22. Discounted F. Jones' Acceptance for £250 at 4 months with Johnson & Timms at 5%.
23. Smith Bros. retired their Acceptance for £100 under rebate £1 5s.
24. Paid off my Acceptance to Robinson & Co., £200, under rebate £2 10s.
25. Sent Brown & Co. sight draft for £200.
26. Received sight draft for £250 from Smith & Co.
27. Received Bill dated 1st June at 10 days for £95 from R. Jones.
28. Sent Smith Bros., Paris, 7 days' draft for £85.
29. Sold furniture for £100 to Smith Bros., and received in payment my own Acceptance to Jones Bros. for £100.
30. Received of Smith Bros.: Brown & Co.'s Draft on me for £400 due in 2 months. Credited them with £396 13s. 4d.
31. Endorsed and handed to Peter Robinson & Co. F. Smith's Acceptance at 4 months for £1,000, for which they gave credit £983 6s. 8d.

## Key to Example No. 1.

JOURNAL.

Dr.

Cr.

19..									
1	Brown & Co. .. ..	80							
	To Bill Payable .. ..						80		
2	Bill Receivable .. ..	100							
	To Smith & Co. .. ..						100		
3	Brown & Co. .. ..	120							
	To Bill Payable .. ..						120		
4	Bill Receivable .. ..	95							
	To Brown & Co. .. ..						95		
5	Bill Receivable .. ..	285							
	Discount .. ..	15							
	To Smith Bros. .. ..						300		
6	Jones Bros. .. ..	200							
	To Bill Payable .. ..						190		
	„ Discount .. ..						10		
7	F. Smith .. ..	95							
	To Bill Payable .. ..						95		
8	Bill Receivable .. ..	50							
	To J. Roberts .. ..						50		
9	M. Robinson .. ..	200							
	To Bill Payable .. ..						200		
10	Smart Bros. .. ..	160							
	To Bill Receivable .. ..						160		
11	Bill Receivable .. ..	90							
	To Stiff & Co. .. ..						90		
12	Bill Receivable .. ..	500							
	To Jones & Co. .. ..						500		
	Smith Bros. .. ..	500							
	To Bill Receivable .. ..						500		
13	Bell & Co. .. ..	150							
	To Bill Payable .. ..						150		
14	Smart & Co. .. ..	250							
	To Bill Payable .. ..						237	10	
	„ Discount .. ..						12	10	

JOURNAL—*continued.**Dr.**Cr.*

15	Bill Receivable .. ..	146	5					
	Discount .. ..	3	15					
	To Taylor & Co. ..					150		
27	Bill Receivable .. ..	95						
	To R. Jones .. ..					95		
29	Smith Bros. .. ..	100						
	To Furniture .. ..					100		
	Bill Payable .. ..	100						
30	To Smith Bros. .. ..					100		
	Bill Payable .. ..	400						
	To Smith Bros. .. ..					400		
	Smith Bros. .. ..	3	6	8				
	To Interest .. ..					3	6	8
31	P. Robinson & Co. .. ..	1000						
	To Bill Receivable .. ..					1000		
	Interest .. ..	16	13	4				
	To P. Robinson & Co. ..					16	13	4

(For CASH BOOK see next page.)

## Notes to Key.

8 and 9. Promissory notes are more usual for loan transactions. Where such notes are very few they may be treated like bills; but, if numerous, "Promissory Notes Receivable" and "Promissory Notes Payable" accounts should be opened.

12. Two entries must be made, otherwise the bill will be ignored, which is not possible in practical work. The entry Smith *Dr.* to Jones would, however, be theoretically correct.

13. It matters not to whom we are asked to pay. We look upon the bill as settling Bell's account, and therefore debit Bell & Co. with it.

14 and 15. An entry would also be required for No. 14 in the Purchases Book, and for No. 15 in the Sales Book, in addition to the Journal entry for the bill in each case.



Dr

## CASH BOOK.

Cr.

Date. 19..	Receipts.	Dis- count.	Office.	Bank.	Date. 19..	Payments.	Dis- count.	Office.	Bank.
16	To Bill Receivable ..			200	17	By Bill Payable ..			150
18	" Bill Receivable ..			50	19	" Bill Payable ..			75
20	" Bill Receivable ..			250	21 (b)	" Discount on Bills			210
21 (a)	" Bill Receivable ..	210		197 10	24	" Bill Payable ..	210		197 10
21 (b)	" Bill Receivable ..			200	25	" Brown & Co. ..			200
22	" Bill Receivable ..	4 3 4		245 16 8	28	" Smith Bros. ..			85
23	" Bill Receivable ..	1 5		98 15					
26	" Smith & Co. ..			250					
27	" Bill Receivable ..			95					
June 13									

Students are constantly mixing these bills up because they do not reason the matter out. Yet it is simple enough. If we *buy* goods for a bill we shall have to *pay* for them ; hence the Bill must be a Bill *Payable*. When we *sell* goods for a bill we expect to *receive* the money ; hence the Bill will be a Bill *Receivable*.

21 and 22. It is immaterial with whom we discount the bill, whether with our bankers or a firm of bill brokers ; the Cash Book entry is " To Bill Receivable." The rate of discount is usually taken to mean " per annum." Some banks credit the full amount of the bill and debit the discount ; others credit only the net value of the bill after discount.

25 and 26. Sight drafts are equivalent to cheques, and are therefore entered straight into the Cash Book.

27. Thirteen days after date, that is ten plus three days of grace, the bill would become due ; and the student would be expected, in the absence of any information as to dishonour, to enter the bill in the Cash Book as having been met.

28. There are three ways of paying a foreign creditor. (1) If we have a debtor in Paris, we can draw on our debtor payable to our creditor. (2) If the transactions are sufficiently numerous, we can open an account with a Paris bank, and draw cheques on the French bank to pay the French creditors. (3) If we have no debtor in Paris, and no French banking account either, we may, as in this case, buy a foreign draft. We write out a cheque for the English equivalent of the foreign debt, and from a broker on the Royal Exchange buy with our cheque a draft payable at the broker's Paris office in francs and centimes, which draft we forward to our Paris creditor. And having given away a cheque we must record it on the credit side of the Cash Book ; and we enter it as if we had actually sent our creditor the cheque itself.

29. In this case a person's own acceptance is returned to him in payment of a debt due to him. If this happens at maturity the bill is forthwith discharged.

30 and 31. In these cases unmatured bills are being used to settle debts presumably payable immediately. In each case interest is charged for the unexpired term of the bill. As the bills can only be entered at their face value, a separate entry must be made showing the difference between the bills and the amount credited, in each case, as a gain or loss of interest

**Example No. 2.****RENEWING BILLS***(before and after dishonour).*

1. Brown Bros.' acceptance for £100 renewed for three months with interest at 5 per cent.

2. My acceptance to Smith & Co. for £250 renewed for four months with 5 per cent. interest.

3. Smith and Jones retire their acceptance for £350 by cheque £150, and a new bill at one month for the balance, interest at 5 per cent., together with the bill stamp, being paid in cash.

4. Retired my acceptance to Walker & Son for £500 by cheque £200, and a new bill at two months with interest at 4 per cent. for the balance, being charged also with bill stamp.

5. Jones Bros.' acceptance for £1,220 due this day returned by Bank dishonoured, with noting charges and expenses £1 5s. 6d. Renewed same for five months with interest at 6 per cent., noting expenses, interest, and bill stamp, being duly paid in cash at once.

**DISHONOURD BILLS.**

6. Jones Bros.' acceptance for £500, due this day, returned dishonoured. Noting charges, 6s.

7. Jones Bros.' acceptance for £500, due this day, returned by Bank dishonoured with noting charges, 6s.

8. Jones Bros.' acceptance for £500, due this day, returned by Smith & Co. (one of my creditors) dishonoured. Noting charges paid by them, 6s. Withdrew same in exchange for my cheque.

9. My own acceptance to Smith Bros. for £600 dishonoured through omitting to give Bank instructions to pay same. I receive a debit note from them for £600 12s. 6d., including noting charges and expenses. I settle it by cheque.

Enter the above transactions in Journal and Cash Book.

**Key to Example No. 2.****JOURNAL.**

				<i>Dr.</i>		<i>Cr.</i>	
1	Brown Bros. .. ..	100				100	
	To Bill Receivable ..						
	Bill Receivable .. ..	101	5			101	5
	To Brown Bros. .. ..						

JOURNAL— <i>continued.</i>				<i>Dr.</i>			<i>Cr.</i>		
	Brown Bros. .. ..	1	5				1	5	
	To Interest .. ..								
2	Bill Payable .. ..	250					250		
	To Smith & Co... ..								
	Smith & Co. .. ..	254	3	4			254	3	4
	To Bill Payable .. ..								
	Interest .. ..	4	3	4			4	3	4
	To Smith & Co... ..								
3	Smith & Jones .. ..	350					350		
	To Bill Receivable ..								
	Bill Receivable .. ..	200					200		
	To Smith & Jones .. ..								
	Smith & Jones .. ..		16	8				16	8
	To Interest .. ..								
4	Bill Payable .. ..	500					500		
	To Walker & Son .. ..								
	Walker & Son.. ..	302	4				302	4	
	To Bill Payable .. ..								
	Bill Stamp .. ..		4						
	Interest .. ..	2					2	4	
	To Walker & Son .. ..								
5	Bill Receivable .. ..	1220					1220		
	To Jones Bros. .. ..								
	Jones Bros. .. ..	30	10				30	10	
	To Interest .. ..								
6	Jones Bros. .. ..	500					500		
	To Bill Receivable ..								
8	Jones Bros. .. ..	500	6				500	6	
	To Smith & Co... ..								
9	Bill Payable .. ..	600							
	Noting Expenses .. ..		12	6			600	12	6
	To Smith Bros. .. ..								

(For CASH BOOK see next page.)

**Bills Receivable and Payable Books.**—Where bill transactions are very numerous, specially ruled books are used in order that full particulars may be kept of each bill.



**Bills Receivable and Payable Ledgers** are also in use, and sometimes form part of the double entry books, there being, in this case, no Bills Receivable or Payable accounts in the General Ledger. The rulings are almost identical with the Bill Books, additional columns, however, being provided to show the disposal of each bill.

### Examples of Bill Book Transactions.

From the following particulars compile Bills Receivable and Payable Books, and post same to Ledger accounts.

*N.B.*—All my own acceptances were made payable at my bankers, Lloyds, City.

19..

- Mar. 1. Drew on Smith Bros. at 1 month after date for £190, allowing them discount £10. No. of bill, 157.
- „ 2. Received Smith Bros.' acceptance, payable at Lloyds' Bank, Holborn.
- „ 2. Accepted Smith & Oliver's draft of the 1st inst., at 2 m/d for £134 7s. 8d., in favour of Brown Bros. No. of bill, 79.
- „ 8. Received of Cook & Son, Jones & Co.'s acceptance to them for £125 6s. 8d., dated Jan. 8th at 2 m/d, payable at Parr's Bank, Strand.
- „ 11. Gave Brown & Jones my acceptance dated 10th inst., at 10 days after date, for £150.
- „ 11. Received Watson & Co.'s acceptance of my draft of yesterday, at 3 m/d for £67 15s., payable at Bank of England, Derby.
15. Giles & Co. forward me F. H. Brown's acceptance to them for £250, payable at Birkbeck Bank. Bill drawn Feb. 18th at 2 months after sight. Acceptance dated Feb. 28th.
- „ 20. Received Porters & Sons' draft of the 19th inst., at 3 m/d, in favour of Smith & Sons for £218 10s.; discount allowed, £11 10s. Returned same duly accepted.
- „ 21. Drew on W. Marshman at 4 m/d for £243 15s., allowing discount, £6 5s.
- „ 22. Received W. Marshman's acceptance, payable at Coutts' Bank, City.
- „ 26. Received Reeve Bros.' draft on me of yesterday's date for £300 at 1 m/d. Returned same accepted.
- „ 30. Returned, duly accepted, F. H. Archer's draft on me of the 29th inst., at 4 m/d, for £78 2s. 6d., in favour of Welsh & Co.
- „ 30. A. Shepherd forwards me L. Cox's acceptance to W. Timms for £120 17s. 10d. Bill drawn Jan. 28th, at 2 m/d, and payable at Joint Stock Bank, Chester.
- „ 31. Accepted Wallis & Co.'s draft dated Mar. 20th, at 3 m/s, for £165 15s.; discount allowed, £4 5s.

Bill No. 158 was duly met, No. 160 was discounted, and No. 162 was dishonoured. Acceptance No. 80 was duly paid, and No. 82 was renewed on April 27th. Bill No. 159 was endorsed on to Shilson & Co. on the 10th June.



## BILLS RECEIV

No. of Bill.	Date Received.	From Whom Received.	Ledger Folio.	Dis- count.	Amount of Bill.	Drawer.	Acceptor.
157	19.. Mar. 2	Smith Bros. ..		10	190	Self	Smith Bros.
158	" 8	Cook & Son ..			125 6 8	Cook & Son	Jones & Co.
159	" 11	Watson & Co. ..			67 15	Self	Watson & Co.
160	" 15	Giles & Co. ..			250	Giles & Co.	F. H. Brown
161	" 22	W. Marshman ..		6 5	243 15	Self	W. Marshman
162	" 30	A. Shepherd ..			120 17 10	W. Timms	L. Cox
				16 5			
					997 14 6		

Rule for  
Credit  
Debit

## BILLS PAY

No. of Bill.	Date Accepted.	To Whom Given.	Ledger Folio.	Dis- count.	Amount of Bill.	Drawer.	To Whom Payable.
79	19.. Mar. 2	Smith & Oliver			134 7 8	Smith & Oliver	Brown Bros.
80	" 11	Brown & Jones			150	Brown & Jones	Brown & Jones
81	" 20	Porters & Sons. .		11 10	218 10	Porters & Sons	Smith & Sons
82	" 26	Reeve Bros.			300	Reeve Bros.	Reeve Bros.
83	" 30	F. H. Archer ..			78 2 6	F. H. Archer	Welsh & Co.
84	" 30	Wallis & Co. ..		4 5	165 15	Wallis & Co.	Wallis & Co.
				15 15			
					1,046 15 2		

Rule for  
Debit  
Credit

## ABLE BOOK.

Where Payable.	Date of Bill.	Term.	Due Date.												Remarks.
			Jan.	Feb.	Mar.	Apr.	May.	June.	July.	Aug.	Sept.	Oct.	Nov.	Dec.	
Lloyds, Holborn	19.. Mar. 1	1 m/d				4									
Parrs, Strand ..	Jan. 8	2 m/d			11										Met C.B.
Bank of Eng- land, Derby }	Mar. 10	3 m/d						13							Endorsed to Shilson & Co. }
Birkbeck .. ..	Feb. 18	{ 2 m/s Feb. 28					1								Discounted C. B. }
Coutts, City ..	Mar. 21	4 m/d							24						
Joint Stock, Chester .. }	Jan. 28	2 m/d			31										Dishonoured C. B. }
<b>Posting to Ledger</b> —															
each person " By	Bill Rec."	and " By	Dis	ct.	"	(if	an	y)	.						
Bills Rec. A/c	with total	of bills, " To	Su	n	d	r	y	D	r	s."					
Discount "	" "	" discount	"	T	o	S	u	n	d	r	y	D	r	s."	

## ABLE BOOK.

Where Payable.	Date of Bill.	Term.	Due Date.												Remarks.
			Jan.	Feb.	Mar.	Apr.	May.	June.	July.	Aug.	Sept.	Oct.	Nov.	Dec.	
Lloyds, City	19.. Mar. 1	2 m/d					4								
do.	Mar. 10	10 d/d			23										Paid C. B.
do.	Mar. 19	3 m/d						22							
do.	Mar. 25	1 m/d				28									Renewed April 27th
do.	Mar. 29	4 m/d								1					
do.	Mar. 20	3 m/s							3						
<b>Posting to Ledger</b> —															
each person " To	Bill Pay."	and " To	Dis	c	t.	"	(if	an	y)	.					
Bills Payable A/c	with total	of bills, " By	Su	n	d	r	y	C	r	s."					
Discount "	" "	" disc	o	u	n	t,	"			"		"			

## I. (SALES LEDGER.)

<i>Dr.</i>		SMITH BROS.										<i>Cr.</i>	
						Mar. 2	By Bill Rec.					190	
							" Discount					10	
<i>Dr.</i>		COOK & SON.										<i>Cr.</i>	
						Mar. 8	By Bill Rec.					125	6 8
<i>Dr.</i>		WATSON & CO.										<i>Cr.</i>	
						Mar. 11	By Bill Rec.					67	15
<i>Dr.</i>		GILES & CO.										<i>Cr.</i>	
						Mar. 15	By Bill Rec.					250	
<i>Dr.</i>		W. MARSHMAN.										<i>Cr.</i>	
						Mar. 22	By Bill Rec.					243	15
						" "	" Discount					6	5
<i>Dr.</i>		A. SHEPHERD.										<i>Cr.</i>	
						Mar. 30	By Bill Rec.					120	17 10

## I. (GENERAL LEDGER.)

<i>Dr.</i>		BILLS RECEIVABLE.										<i>Cr.</i>	
Mar. 31	To Sun. Drs.					997	14	6					
<i>Dr.</i>		DISCOUNT.										<i>Cr.</i>	
Mar. 31	To Sun. Drs.					16	5						

## II. (BOUGHT LEDGER.)

*Dr.* SMITH & OLIVER. *Cr.*

Mar. 2	To Bill Pay.	134	7	8					
--------	--------------	-----	---	---	--	--	--	--	--

*Dr.* BROWN & JONES. *Cr.*

Mar. 11	To Bill Pay.	150							
---------	--------------	-----	--	--	--	--	--	--	--

*Dr.* PORTERS & SONS. *Cr.*

Mar. 20	To Bill Pay.	218	10						
" "	" Discount	11	10						

*Dr.* REEVE BROS. *Cr.*

Mar. 26	To Bill Pay.	300							
---------	--------------	-----	--	--	--	--	--	--	--

*Dr.* F. H. ARCHER. *Cr.*

Mar. 30	To Bill Pay.	78	2	6					
---------	--------------	----	---	---	--	--	--	--	--

*Dr.* WALLIS & CO. *Cr.*

Mar. 31	To Bill Pay.	165	15						
" "	" Discount	4	5						

## II. (GENERAL LEDGER.)

*Dr.* BILLS PAYABLE. *Cr.*

					Mar. 31	By Sun. Crs.	1,046	15	2
--	--	--	--	--	---------	--------------	-------	----	---

*Dr.* DISCOUNT. *Cr.*

					Mar. 31	By Sun. Crs.	15	15	
--	--	--	--	--	---------	--------------	----	----	--

**BILL OF LADING.**—A document signed by the master of a ship on behalf of the owners, acknowledging the receipt of goods put on board his vessel, and setting forth the terms and conditions under which the goods will be carried. It is generally used when a cargo of miscellaneous goods is collected from various consignors. A Bill of Lading must be stamped with an impressed 6d. stamp before execution. Bills of Lading are usually made out in triplicate, one copy being kept by the master, one by the consignor, and the other being forwarded to the consignee. Bills of Lading are often made out in blank, that is, no special consignee is named. The ownership of the goods then remains in the consignor, who has, therefore, the right of “stoppage in transitu.” Although the endorsement and delivery of a Bill of Lading operate as a valid transfer of the property of the goods named therein, yet a Bill of Lading is not, strictly speaking, a negotiable instrument; as the transferee, even though he be a *bonâ fide* holder for value, acquires no better title than the transferor had. A clean Bill of Lading is one that has no qualifications such as “weight and contents unknown,” “value unknown,” etc.

Example—

### BILL OF LADING



B & O

1-10

11-20



Cape Town.

Shipped in good order and well conditioned by *Messrs. Smith & Jones* in and upon the good steamship called the *Princess Maria* whereof is master for this present voyage *William Brown* and now riding at anchor in the river *Thames* and bound for *Cape Town*.

*20 cases of Fancy Goods*

being numbered and marked as in the margin, and are to be delivered in the like good order and well conditioned at the aforesaid port of *Cape Town* (the Act of God, the King's enemies, fire, and all dangers and accidents of the seas, rivers, and navigation of whatever nature and kind soever excepted) unto *Messrs. Brown & Oliver* or to their assigns, they paying freight for the said goods *Ten pounds eleven shillings and sixpence* with primage and average accustomed. In witness whereof the master of the said ship hath affirmed to three Bills of Lading all of this tenor and date one of which being accomplished the other two to stand void.

Weight, contents, and value unknown.

Dated in *London*,  
19th May, 19...

*William Brown*,  
Master.

**BILLS OF EXCHANGE, LIST J.**—(See STATEMENT OF AFFAIRS.)

**BILLS UNDER DISCOUNT.**—When a trader discounts a Bill Receivable which he has drawn, he transfers the bill to the banker, who at maturity collects the money from the acceptor. Should, however, the acceptor fail to pay the bill, the banker can demand the full value from the trader. Hence, on each bill the trader has discounted there exists a contingent liability. At balancing time, therefore, the bills discounted not yet matured should be totalled, and the amount shown as a foot-note on the Balance Sheet : “ *Bills under Discount, £.....*” If it is known or expected that any of the bills will be dishonoured and, perhaps, become a bad debt, a reserve should be made providing for any loss that is likely to arise in connection with them. The Journal entry would be—

Profit and Loss	<i>Dr.</i>
To Reserve for Bills under Discount	<i>Cr.</i>

the latter item appearing temporarily on the liabilities side of the Balance Sheet.

**BONUS.**—(See ASSURANCE.)

**BONUS TO EMPLOYEES.**—A portion of the profits distributed among the staff in order to encourage them to take a greater interest in the business. In some cases, however, the bonus is given only to heads of departments or managers, as an incentive to vigilance and economy in the interests of the company or firm. This item figures sometimes in the Profit and Loss Account, sometimes in the Appropriation Account, according as it is a fixed amount or a percentage of the actual profits. A separate ledger account is opened for it, and this account is closed by payment in cash of the bonus which, till then, figures on the Balance Sheet as a liability.

**BONUS DIVIDEND.**—(See DIVIDEND.)

**BONUS SHARES.**—When a company has accumulated large reserves out of **profits**, these reserves, or a portion of them, are often **capitalised** by the issue of free or bonus shares, in order that the shareholders may derive some benefit from such reserves. As the result of successful trading, however, the market price of the shares will probably be at a premium, and such shares would generally be issued at a premium. If such shares were issued at par, the whole amount would be capitalised, and the company might find itself unable to pay a dividend on such augmented capital,



unless profits continued to increase largely; whereas, if issued at a premium, the premium would remain in the business and a much smaller amount would be capitalised; which would not be so likely to reduce the rate of dividend paid formerly. Where the capital of a company is only partly called, such bonus is often applied towards making the shares fully paid.

**Example 1.—Bonus Shares issued at par.**

A Company, with a paid-up capital of £200,000 in £1 shares, having accumulated a Reserve of £60,000, resolves to capitalise £40,000 of it by issuing to the shareholders 40,000 bonus shares of £1 each fully paid, each shareholder to receive 1 bonus share for every 5 shares held in the Company. Show the entries required to record the transaction.

JOURNAL.		Dr.	Cr.
19..	Reserve Account .. .. .	40,000	40,000
	To Bonus Account .. .. .		
	Bonus payable out of reserve in fully-paid shares as per resolution dated.....		
	Bonus Account .. .. .	40,000	40,000
	To Share Capital Account ..		
	Issue of 40,000 shares of £1 each, in payment of bonus, at the rate of 1 bonus share for every 5 shares held in the Company.		

**Example 2.—Bonus Shares issued at a premium.**

A Company with a paid-up Capital of £120,000 in £1 shares resolves to distribute a bonus, equal to 25 per cent. of its capital, out of the Reserve Fund of £50,000. The market value of the shares is £3, and it is decided to issue the shares at a premium of £2 per share, at the rate of 1 fully-paid share for every 12 shares held in the Company. Show the entries required to record the transaction.

JOURNAL.		Dr.	Cr.
19..	Reserve Fund Account .. .. .	30,000	
	To Bonus Account .. .. .		30,000
	Bonus of 25 per cent. on 120,000 shares of £1 each, payable in fully-paid shares as per resolution dated.....		

JOURNAL— <i>continued.</i>		Dr.	Cr.
Bonus Account .. .. .	30,000		
To Share Capital Account ..			10,000
„ Share Premium Account ..			20,000
Issue of 10,000 £1 fully-paid shares, at a premium of £2 per share, at the rate of 1 share for every 12 shares held in the Company.			

**Example 3.—Bonus applied to making Shares fully paid.**

A Company with a nominal and issued Capital of £150,000 in £1 shares, 15s. per share paid, declares a bonus, out of the Reserve Fund, at the rate of  $33\frac{1}{3}$  per cent. on the paid-up Capital, with the object of making the shares fully paid. Show the entries required to record the transaction.

JOURNAL.		Dr.	Cr.
19..			
Final Call Account .. .. .	37,500		
To Share Capital .. .. .			37,500
Call of 5s. per share on 150,000 shares as per resolution dated....			
Reserve Fund Account .. .. .	37,500		
To Bonus Account .. .. .			37,500
Bonus of $33\frac{1}{3}$ % on £112,500 paid- up Capital, payable out of the Reserve Fund, as per resolution dated .....			
Bonus Account .. .. .	37,500		
To Final Call Account .. ..			37,500
Application of bonus to payment of Final Call, as per resolution dated .....			

**BOOK DEBTS.**—The debts owing to a trader as per his Sales Ledger or Ledgers, otherwise called his Sundry Debtors.

When a business is purchased as a going concern, it is usual for the vendor to guarantee the book debts. This means that the buyer of the business takes over the Sundry Debtors at their book value; but should any losses be sustained on them through allowances, or discounts, or bad debts, these losses will be made good to the buyer by the vendor.

**BOOK DEBTS, LIST I.**—(See STATEMENT OF AFFAIRS.)

**BOOK-KEEPING.**—The science and art of recording business transactions in books in such a manner as to show their effect upon the financial position of the parties concerned.

There are two systems of book-keeping in use at present, Single Entry and Double Entry.

**Single Entry** is that method of book-keeping which keeps only *personal* accounts. (See SINGLE ENTRY.)

**Double Entry** is that method of book-keeping which keeps both *personal* and *impersonal* accounts. (See DOUBLE ENTRY.)

The books used in book-keeping are divided into two classes—

(a) Financial Books or Books of Account.

(b) Statistical or Memorandum Books.

**Financial Books or Books of Account** are those which form part of the system of book-keeping, and comprise the Ledger, which is the principal book; the Cash Book, which is really a part of the ledger separated for the sake of simplicity and convenience; and the subsidiary books or books of “*first*” or “*prime*,” or “*original*” entry, such as the Journal, Purchases and Sales Books, etc.

**Statistical or Memorandum Books** are those used for recording details connected with the transactions that cannot conveniently be included in the books of account. Such books are, for example, the Share Ledger of a limited company, Cost Books, Stock Books, the Policy Registers of an insurance company, etc.

**BOOKS IN USE IN A BANK.**—Questions on this matter often appear in examination papers, and the following would be a suitable answer—

Tellers or Cashiers Received Cash Books.

Tellers or Cashiers Paid Cash Books.

General Cash Book for summary of above.

General Ledger.

Investment Ledger.

Loans Ledger.

Discount Day Book, Cash Book, and Ledger.

Current Account Ledgers (town and country).

Deposit Day Books and Ledgers.

Impersonal Ledger.

Correspondents' and Agents' Books and Ledgers.

Bills Receivable and Payable Books and Ledgers.

The usual Company books, if a Joint Stock Banking Company.

**BOUGHT BOOK, BOUGHT DAY BOOK, BOUGHT INVOICE BOOK, BOUGHT JOURNAL.**—(See PURCHASES BOOK.)

**BOUGHT LEDGER, PURCHASES LEDGER, CREDITORS' LEDGER.**—The ledger in which only the creditors' accounts are kept. The credit purchases are posted on the credit side of each personal account, and the payments of cash and bills on the debit side.

**BOXES.**—(See PACKAGES.)

**BRANCH ACCOUNTS.**—Branch accounts are generally divided into three main classes—

(1) Where the branch book-keeping is done at the head office, the branch supplying the necessary information, or, as it is termed, making returns.

(2) Where the branch keeps its own books, and at balancing time forwards a copy of its trial balance for incorporation in the head office books.

(3) Foreign branches.

Each of the first two classes, however, is subdivided according as the branch is retail or wholesale. Moreover, the kind of business itself exercises a not unimportant influence upon the method of book-keeping; for where, as in many trades, the stock is of a perishable nature, it obviously cannot be dealt with in the same way as in other businesses where it remains good indefinitely.

**Transfer of Stock to Branches.**—When a branch is opened and stock is transferred to it from the head establishment, this transfer should not be treated as a sale, as is sometimes done; for it is not a proper sale, but only an issue of goods. A Journal entry should be made debiting the Branch Account and crediting a "Goods to Branches Account." This latter account is closed ultimately to the Trading Account.

**Example.**—On 1st Jan., 19.., opened a branch establishment and transferred thereto £700 worth of goods from stock. Show the ledger accounts recording this transaction—

Dr.		BRANCH ACCOUNT.				Cr.	
19..							
Jan. 1	To Goods to Branches ..	700					
Dr.		GOODS TO BRANCHES ACCOUNT.				Cr.	
19..							
Dec. 31	To Trading Account ..	700					
				19..			
				Jan. 1	By Branch Account ..	700	



Date.	Particulars.	Total.		Branch A.		Branch B.	
		Cost Price.	In-voice Price.	Cost Price.	In-voice Price.	Cost Price.	In-voice Price.
		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.

**Branch Returns.**—Where the Branch sales are exclusively cash, the Branch would simply make returns of (a) its daily takings, with a departmental analysis of such cash sales if necessary; (b) its wages and other expenses, likewise dissected; (c) any commission that had accrued to the assistants



or manager ; and (*d*) such statistical information respecting its present stock and future requirements as the Head Office might desire. But where the sales are partly cash and partly credit, additional information has to be furnished with regard to the debtors ; (*e*) what accounts have been settled since last return ; (*f*) the cash received, and the discounts, returns, and allowances in connection with such settlements ; (*g*) what debts have become bad or doubtful ; (*h*) particulars of the credit sales since last return ; (*i*) the debtors outstanding at the date of the current return. The Branch itself generally keeps a small Ledger for the Debtors' accounts. From the information thus furnished by each branch, the Head Office is enabled to write up the various Branch accounts.

### I. (*a*) RETAIL BRANCHES.

**Example 1.**—From the following particulars prepare the Branch Account as it would appear in the Head Office books. The Branch sales are exclusively cash, and the goods sent to the Branch have been invoiced at cost price.

Stock, 1st Jan., 19.. ..	£	700
Goods from Head Office .. ..	5,220	
Returns to Head Office .. ..	36	
Wages .. ..	340	
Rent .. ..	120	
Rates, Taxes, and Insurance .. ..	60	
Sundry Expenses .. ..	75	
Cash remitted to Head Office.. ..	6,520	
Stock, 31st Dec., 19.. ..	775	

Dr.		BRANCH ACCOUNT.		Cr.	
19..	To Balance ..	700	19..	By Cash ..	6,520
Jan. 1	" Goods from		Dec. 31	" Returns ..	36
Dec. 31	" H.O. ..	5,220	"	" Stock .. c/d	775
"	" Wages ..	340			
"	" Rent ..	120			
"	" Rates, Taxes,				
"	etc... ..	60			
"	" Sundry Exps.	75			
"	" Profit and				
	Loss A/c }	816			
	(Profit)				
		7,331			7,331
19..					
Jan. 1	To Balance .. b/d	775			

**Example 2.**—From the details given below, write up the Branch Account in the Head Office books. The Branch sales are for cash only; and the goods sent to the Branch have been invoiced at 25 per cent. on cost.

Stock, 1st Jan., 19.. .. .	£850
Goods sent to Branch (less returns) .. .. .	6,500
Rates, Taxes, and Insurance .. .. .	75
Wages and Salaries .. .. .	367
Rent .. .. .	140
Sundry Expenses .. .. .	36
Cash remitted by Branch .. .. .	6,360
Stock, 31st Dec., 19.. .. .	975

(See next page for solution.)

**Percentage added to the Cost Price.**—Whenever this is done, the percentage must be taken into account at balancing time; that is to say, the Branch purchases, opening and closing stocks, must be reduced to cost in order to arrive at the correct profit. In an office, the cost can be easily ascertained by reference to the **Branch Supplies Book**: but, in examination work, the cost must be found by arithmetical calculation. The student must remember that, if a percentage has been added to the cost of goods, the same percentage taken off will not reduce the goods to their original figure. For example, suppose that £500 worth of goods has been sent to a Branch with 25 per cent. added to the cost; the goods would then have been invoiced to the Branch at £625. Now, 25 per cent. taken off £625 will not reduce it to its original amount, £500. We must reason thus: On every £125, £25 has been added; the increase is, therefore,  $\frac{25}{125}$  or  $\frac{1}{5}$ ; and one-fifth must consequently be taken off in order to bring the amount down to cost. In the foregoing example, No. 2, the goods received from Head Office, and also the stocks at commencement and finish, have been decreased by one-fifth before being brought to account.

The percentage added to the price when invoicing goods to the Branch is usually the estimated or expected rate of gross profit on cost; and when the Branch Trading Account is made up at the actual invoice figures, both sides should, theoretically, agree. A balance, if any, indicates that more, or less, than the anticipated gross profit is being made. In the above example the actual gross profit is £15 short of what it ought to be. This would lead to a search for the existence of a probable error, and possibly to an investigation as to whether the figures relating to the goods or money were being manipulated.



The double columns shown in the illustration have the great advantage of showing clearly and at a glance both the nominal and the actual gross profits. Instead, however, of employing double columns bringing both sets of figures into account, the goods sent to the Branch are sometimes posted to the ledger at the invoice price only. It then becomes necessary to open a "**Branch Adjustment Account**" in addition to a "Goods to Branches Account," if we wish by means of proper double entry to ascertain the actual trading profit. This method, applied to the foregoing example, would give us the following—

Dr.				BRANCH ADJUSTMENT ACCOUNT.				Cr.			
19..				19..				19..			
Dec. 31	To Branch A/c (apparent loss)		15	Jan. 1	By Balance % on Stock	b/d	170				
"	" Balance % on Stock	c/d	195	Dec. 31	" Goods to Branch % on Goods ..		1,300				
"	" Branch P. & L. A/c .. (Gross Profit)		1,260								
			1,470							1,470	
				19..							
				Jan. 1	By Balance % on Stock	b/d	195				
Dr.				GOODS TO BRANCHES ACCOUNT.				Cr.			
19..				19..				19..			
Dec. 31	To Branch Ad- justment A/c		1,300	Dec. 31	By Branch A/c		6,500				
"	" Transfer to Trading A/c (Goods at cost)		5,200								
			6,500							6,500	

The *credit* balance of £195 in the Branch Adjustment Account would be set off against the *debit* balance of £975 in the Branch Account, thus enabling the Branch Stock to be entered in the Stock Account and Balance Sheet at cost, namely, £780, as in the previous method.

The Branch Adjustment Account shows a gross profit of £1,260, which would be taken to a Branch Profit and Loss Account. Against this profit would be debited the total of the "Branch Expenses Account," namely, £618. This would leave a net profit of £642 to be carried to the general Profit and Loss Account—the same final result as by the first way.

**Credit Sales by a Branch.**—These are treated in different ways. If the transactions are not very large or numerous, everything is put through one Branch Account, the debtors being treated in the same way as stock at commencement and finish. In some cases, however, a separate **Branch Debtors' Account** is opened in addition to a Branch Account. And where the turnover is sufficiently large to warrant it, the Branch Account itself is often divided into two parts: a **Branch Goods Account** and a **Branch Expenses Account**, in order to be able to ascertain both gross and net profits.

**Example 3.**—From the undermentioned particulars, construct the Branch Account or Accounts in the Head Office books. The goods sent to the Branch have been invoiced at cost, and the Branch makes both cash and credit sales.

Stock, 1st Jan., 19.. .. .	£600
„ 30th June, 19.. .. .	580
Goods received from Head Office .. .. .	2,320
Returns to Head Office .. .. .	36
Six months' Credit Sales to 30th June, 19.. .. .	2,840
Returns from Customers .. .. .	24
Allowances to Customers .. .. .	12
Cash received on Ledger Accounts .. .. .	2,337
Discounts allowed to Customers .. .. .	123
Ready Money Sales .. .. .	1,520
Bad Debts .. .. .	25
Rent, Rates and Taxes.. .. .	86
Wages and Salaries .. .. .	285
Sundry Expenses .. .. .	55
Debtors, 1 Jan., 19.. .. .	1,250
„ 30th June, 19.. .. .	1,569

The simplest form would be the following—

Dr.		BRANCH ACCOUNT.		Cr.	
19..			19..		
Jan. 1	To Balance—		June 30	By Cash	
	Stock .. £600			(Ledger	
	Debtors 1,250		„	A/cs) ..	2,337
		1,850			
June 30	„ Goods from		„	„ Cash (R.M.S.)	1,520
	H.O. ..	2,320	„	„ Returns to	
„	„ Rent, Rates,		„	H.O. ..	36
	etc. ..	86	„	„ Balance :—	
„	„ Wages and			Stock .. £580	
	Salaries	285		Debtors 1,569	c/d 2,149
„	„ Sundry Exps.	55			
„	„ Profit and				
	Loss A/c	1,446			
	(Net Profit)				
		6,042			6,042
July 1	To Balance .. b/d	2,149			

A more elaborate form is as follows—

<i>Dr.</i>		BRANCH GOODS ACCOUNT.				<i>Cr.</i>	
19..					19..		
Jan. 1	To Balance ..		600		June 30	By Cash Sales ..	1,520
June 30	" Goods from H.O. ..	2,320			"	" Credit Sales ..	2,840
"	" Returns In. ..	24			"	" Returns to H.O. ..	36
"	" Allowances ..	12			"	" Stock .. c/d	580
"	" Branch P. & L. A/c ..	2,020					
	(Gross Profit)						
			4,976				4,976
July 1	To Balance .. b/d	580					

<i>Dr.</i>		BRANCH EXPENSES ACCOUNT.				<i>Cr.</i>	
19..					19..		
June 30	To Rent, Rates, etc. ..		86		June 30	By Branch P. & L. A/c	574
"	" Wages ..		285				
"	" Sundry Exps. ..		55				
"	" Bad Debts ..		25				
"	" Discounts ..		123				
			574				574

<i>Dr.</i>		BRANCH DEBTORS' ACCOUNT				<i>Cr.</i>	
19..					19..		
Jan. 1	To Balance ..		1,250		June 30	By Cash ..	2,337
June 30	" Credit Sales		2,840		"	" Discount ..	123
					"	" Returns & Allowances	36
					"	" Bad Debts ..	25
					"	" Balance .. c/d	1,569
			4,090				4,090
July 1	To Balance .. b/d	1,569					



Dr.		BRANCH PROFIT AND LOSS ACCOUNT.				Cr.	
19.. June 30	To Branch Ex- penses A/c		574	19.. June 30	By Branch Goods A/c (gross profit)	2,020	
"	" P. & L. A/c (net profit)	1,446					
		2,020				2,020	

**Depreciation of Assets.**—In the case of Furniture, Fixtures and Fittings, or other fixed assets possessed by the Branch, the depreciation of same is often dealt with in the Head Office Depreciation Account only, as in the previous examples. Sometimes, however, it is charged against each particular Branch, as in the following examples.

**Example 4.**—Prepare, from the particulars given below, the Branch Accounts as they would appear in the Head Office books. The branches are charged with the goods at selling price, the sales being for cash only. The rate of gross profit is 25 per cent. on selling price.

	Branch X.	Branch Y.
Stock, 1st Jan., 19.. ..	£ 1,236	£ 1,524
Goods from Head Office .. ..	9,052	10,012
Sales by Branch .. ..	8,555	9,519
Returns to Head Office .. ..	32	44
Allowances off Selling Price <sup>1</sup> .. ..	25	33
Salaries and Wages .. ..	226	304
Rent, Rates, and Taxes.. ..	253	275
Sundry Expenses .. ..	87	101
Depreciation of Fixtures and Fittings .. ..	15	18
Stock, 31st Dec., 19.. ..	1,684	1,928
Excess in Stock at close <sup>2</sup> .. ..	8	—
Shortage in Stock at close <sup>2</sup> .. ..	—	12

<sup>1</sup> The selling price of the goods is sometimes subject to variation according to the quantity taken. For instance, pencils retailed at 1d. each may be sold at 9d. a dozen and 7/3 a gross. A record is kept of these allowances off selling price, and the total is written off at the end of the period.

<sup>2</sup> It occasionally happens that at stock-taking the stock is different from what it should be, being sometimes more and sometimes less. These discrepancies must, of course, be adjusted at balancing time.

Dr.

## BRANCH X ACCOUNT

		Selling Price.			Selling Price.	
19..	To Balance (Stock) ..	1,236	927	19..	By Cash ..	8,555
Jan. 1	" Goods to Branches ..	9,052	6,789	Dec. 31	" Returns to H. O. ..	24
Dec. 31	" Excess in Stock ..	8		"	" Allowances off	
"	"			"	" Selling Price	25
"	" Branch P. & L. A/c..		2,126	"	" Balance (Stock) c/d .	1,684
	(gross profit)					1,263
		10,296	9,842			9,842
19..	To Balance (Stock) b/d..	1,684	1,263			
Jan. 1						

Cr.

## BRANCH X EXPENSES ACCOUNT.

19..	To Salaries and Wages ..	226	19..	By Transfer to Branch Profit		
Dec. 31	" Rent, Rates, and Taxes ..	253	Dec. 31	and Loss Account ..	581	
"	" Sundry Expenses ..	87				
"	" Depreciation of Fixtures, etc.	15				
		581			581	

Dr.

BRANCH Y ACCOUNT.

Dr.		BRANCH Y ACCOUNT.		Cr.	
		Selling Price.		Selling Price.	
19..	To Balance (Stock)	1,524	19..	9,519	
Jan. 1	" Goods to Branches	10,012	Dec. 31	44	9,519
Dec. 31	" Branch Profit and		"	33	33
"	Loss Account		"	12	
	(gross profit)		"	1,928	1,446
		11,536	"		
			"	11,536	10,998
19..	To Balance (Stock)	1,928			
Jan. 1	b/d				

## BRANCH Y EXPENSES ACCOUNT.

[illegible]

Dr.

## GOODS TO BRANCHES ACCOUNT.

19.. Dec. 31	To Branch X (Returns) .. " Y ( " ) .. " Trading Account ..	19.. Dec. 31		By Branch X .. " Y .. " " "	19.. Dec. 31	6,789 7,509
		24 33 14,241				
		14,298			14,298	

Dr.

## BRANCH PROFIT AND LOSS ACCOUNTS

Cr.

19.. Dec. 31	To Branch Expenses A/c " P. & L. A/c (net profit)	19.. Dec. 31		By Branch A/cs gross profit)	19.. Dec. 31	Branch X.	Branch Y
		Branch X.	Branch Y.				
		581 1,545 2,126	698 1,648 2,346			2,126 2,126	2,346 2,346

Where both sets of figures are not recorded in the Ledger, the goods sent being debited to the Branches at the invoice price only, the accounts assume the following form—

Dr.		BRANCH X.		Cr.	
19.. Jan. 1	To Balance (Stock)	1,236	19.. Jan.-Dec.	By Cash .. ..	8,555
Jan.-Dec.	" Goods to Branch X ..	9,052		" Returns to H.O.	32
Dec. 31	" Excess in Stock	8		" Allowances off Selling Price ..	25
			Dec. 31	" Balance (Stock)	
				c/d	1,684
		10,296			10,296
19.. Jan. 1	To Balance (Stock) b/d	1,684			

Dr.		GOODS TO BRANCH X.		Cr.	
19..				19..	
Jan.-Dec.	To Returns to H.O.	32		Jan. 1	By Balance (Stock)..
	„ Allowances off			Jan.-Dec.	„ Branch X.. ..
	„ Selling Price ..	25			
Dec. 31	„ Branch Sales A/c	8,555		Dec. 31	„ Excess in Stock
„	„ Balance(Stock)				
	c/d	1,684			
		10,296			10,296
				19..	
				Jan. 1	By Balance (Stock)
					b/d
					1,684

Dr.		BRANCH X—RENT, RATES, AND TAXES.		Cr.		
19..				19..		
Jan.-Dec.	To Cash . . . .	253		Dec. 31	By Branch P. & L. A/c	253

Dr.		BRANCH X—SALARIES AND WAGES.				Cr.	
19..					19..		
Jan.-Dec.	To Cash . . . .	226		Dec. 31	By Branch P. & L. A/c	226	

Dr.		BRANCH X—SUNDRY EXPENSES.				Cr.	
19..				19..			
Jan.-Dec.	To Cash .. .. .	87		Dec. 31	By Branch P. & L. A/c	87	

Dr.		BRANCH X—DEPRECIATION.				Cr.	
19.. Dec. 31	To Fixtures and Fittings .. ..	15		19.. Dec. 31	By Branch P. & L. A/c	15	

Dr.		BRANCH Y.				Cr.	
19..				19..			
Jan. 1	To Balance (Stock)	1,524		Jan.-Dec.	By Cash .. . .	9,519	
Jan.-Dec.	" Goods to Branch X ..	10,012		"	" Returns to H.O.	44	
				"	" Allowances off		
				Dec. 31	" Selling Price ..	33	
				"	" Shortage in Stock	12	
					" Balance (Stock)		
					c/d	1,928	
		11,536				11,536	
19..							
Jan. 1	To Balance (Stock)						
	b/d	1,928					

Dr.		GOODS TO BRANCH Y.				Cr.	
19..				19..			
Jan.-Dec.	To Returns to H. O.	44		Jan. 1	By Balance (Stock)	1,524	
"	" Allowances off			Jan.-Dec.	" Branch Y ..	10,012	
	" Selling Price ..	33					
Dec. 31	" Shortage in Stock	12					
"	" Branch Sales A/c	9,519					
"	" Balance (Stock)						
	c/d	1,928					
		11,536				11,536	
				19..			
				Jan. 1	By Balance (Stock)		
					b/d	1,928	

Dr.		BRANCH Y—RENT, RATES, AND TAXES.				Cr.	
19..				19..			
Jan.-Dec.	To Cash .. . .	275		Dec. 31	By Branch P. & L. A/c	275	

Dr.		BRANCH Y—SALARIES AND WAGES.				Cr.	
19..				19..			
Jan.-Dec.	To Cash .. . .	304		Dec. 31	By Branch P. & L. A/c	304	

Dr.		BRANCH Y—SUNDRY EXPENSES.				Cr.	
19..				19..			
Jan.-Dec.	To Cash .. . .	101		Dec. 31	By Branch P. & L. A/c	101	

Dr.		BRANCH Y—DEPRECIATION.				Cr.	
19..				19..			
Dec. 31	To Fixtures and Fittings .. .	18		Dec. 31	By Branch P. & L. A/c ..	18	



Dr

BRANCH TRADING AND PROFIT AND LOSS ACCOUNT,  
FOR THE YEAR ENDING 31ST DEC., 19...

Cr.

	Branch X.		Branch Y.			Branch X.		Branch Y.	
To Stock 1st Jan. ..	927		1,143			8,555		9,519	
" Purchases (net) ..	6,765		7,476		By Branch Sales ..	1,263		1,446	
" Balance .. c/d	2,126		2,346		" Stock 31st Dec. ..				
(gross profit)									
	9,818		10,965			9,818		10,965	
To Rent, Rates, & Taxes	253		275						
" Salaries and Wages ..	226		304		By Balance .. b/d	2,126		2,346	
" Sundry Expenses ..	87		101		(gross profit)				
" Depreciation ..	15		18						
" Balance (net profit) ..	1,545		1,648						
	2,126		2,346			2,126		2,346	

**Monthly Stock Accounts.**—Where goods are charged out to branches at selling price, or at a fixed percentage on cost, there is, of course, an adequate check on the Stock; but where goods are invoiced at cost, there is no such check. In order to provide one, Approximate (or Estimated) Stock Accounts are prepared monthly and recorded in a book kept for the purpose. The compilation of these has already been dealt with in a previous part of the book, to which the student should refer. If a comparison of totals reveals violent fluctuations which cannot be satisfactorily accounted for, the amount of stock can be verified by actual stock-taking, which will prove whether there are any grounds for suspecting irregularities.

### I. (b) WHOLESALE BRANCHES.

In wholesale branches where the volume of trade is very much greater, and the transactions large and important in themselves, the accounts are kept in a manner similar to departmental accounts.

Separate Stock, Purchases, Sales, and Returns Accounts are opened for each branch; thus, Branch A Stock Account, Branch B Stock Account; Branch A Purchases Account, Branch B Purchases Account; Branch A Sales Account, Branch B Sales Account, etc.

Distinct expense accounts are also kept for the branches; such as Branch A Wages, Branch B Wages; Branch A Rent, Rates and Taxes, Branch B Rent, Rates and Taxes; and so on.

There are separate ledgers for each branch. For instance, Branch A Debtors' Ledger would contain the personal accounts of Branch A customers. Branch A General Ledger would record the Branch assets' accounts such as Fixtures and Fittings, Horses and Carts, etc., and also the nominal accounts such as Rent, Rates and Taxes, Wages, Discounts, Bad Debts, etc.

The Head Office generally does all the buying, and hence keeps the creditors' accounts in its own books, merely distributing the goods to its branches for sale. Sometimes, however, the branches are permitted to order, from outside, any goods they may require, the goods being sent to the branch direct but invoiced to the Head Office.

When invoicing goods to customers, branches make out

the invoice in triplicate; one copy is forwarded to the customer, one to the Head Office, and one retained by the branch for reference.

**Example 5.**—From the following particulars relating to a Head Office and its two wholesale branches, prepare the final accounts and Balance Sheet as they would appear in the Head Office books—

	Head Office.	Newcastle Branch.	Leicester Branch.
	£	£	£
Stock, 1st Jan., 19.. ..	—	5,000	4,000
Purchases (less Returns, etc.) ..	—	12,000	10,000
Carriage inwards .. ..	—	550	475
Sales (less Returns, etc.) .. ..	—	28,000	23,000
Debtors .. ..	—	17,500	15,100
Bills Payable .. ..	2,750	—	—
Creditors .. ..	8,430	—	—
Discounts allowed .. ..	—	1,750	1,600
Directors' Fees .. ..	500	—	—
Discounts received .. ..	—	550	425
Reserve Fund Account .. ..	8,000	—	—
Bad Debts .. ..	—	695	563
Salaries .. ..	1,050	—	—
Debenture Interest.. ..	500	—	—
Wages .. ..	—	2,550	1,930
Rent, Rates and Taxes .. ..	256	375	315
Furniture, Fixtures, and Fittings	108	320	240
Travellers' Salaries and Expenses..	—	3,200	2,100
Horses, Harness, Vehicles, etc. ..	—	2,000	1,740
Cash in hand .. ..	35	75	60
Cash at Bank .. ..	9,320	—	—
Sundry Expenses .. ..	—	3,395	3,287
Horse and Stable Expenses .. ..	—	350	275
Share Capital (25,000 shares of £1 each, fully paid) .. ..	25,000	—	—
Interim Dividend 10 per cent. ..	2,500	—	—
5 per cent. Debentures .. ..	10,000	—	—
Depreciation.. ..	12	235	194
Stock, 31st Dec., 19.. ..	—	6,500	5,000
Reserve for Bad Debts 5 % Drs. . .	—	—	—

See pp. 141 and 142 for solution.

Where the head establishment is a manufacturing concern, *e.g.*, a factory, which invoices the goods to its branches at a profit, there would be an extra column in the Trading Account, in order to show the trading profit of the factory as well as the trading profits of the branches.

Dr.

## BRANCH TRADING AND PROFIT AND LOSS ACCOUNT

Cr.

FOR THE YEAR ENDING 31ST DEC., 19..

	New-castle.	Leices-ter.	Total.		New-castle.	Leices-ter.	Total.
To Stock, 1st Jan., 19.. ..	£ 5,000	£ 4,000	£ 9,000	By Sales (net) .. ..	£ 28,000	£ 23,000	£ 51,000
" Purchases (net) .. ..	12,000	10,000	22,000	" Stock 31st Dec., 19..	6,500	5,000	11,500
" Carriage inwards .. ..	550	475	1,025				
" Wages .. ..	2,550	1,930	4,480				
" Balance (gross profit) .. c/d	14,400	11,595	25,995				
	34,500	28,000	62,500		34,500	28,000	62,500
To Bad Debts .. ..	695	563	1,258	By Balance (gross profit) b/d	14,400	11,595	25,995
" Rent, Rates, and Taxes ..	375	315	690	" Discounts received ..	550	425	975
" Travellers' Salaries & Expenses	3,200	2,100	5,300				
" Horse and Stable Expenses ..	350	275	625				
" Depreciation .. ..	235	194	429				
" Reserve for Bad Debts ..	875	755	1,630				
" Sundry Expenses .. ..	3,395	3,287	6,682				
" Discounts allowed .. ..	1,750	1,600	3,350				
" Balance (net profit) .. ..	4,075	2,931	7,006				
	14,950	12,020	26,970		14,950	12,020	26,970



## II. BOOKS KEPT BY THE BRANCHES.

Where the branches are semi-independent trading establishments, they generally do their own book-keeping, and at the end of the financial period forward a copy of their Trial Balance for the trading results to be incorporated in the Head Office books.

**Head Office Account.**—Inasmuch as the Head Office finances the Branch and supplies it with the bulk of the goods, there is a constant state of indebtedness on the part of the Branch to the Head Office. The position is almost that of ordinary debtor and creditor, and is evidenced in the Head Office books by the *debit* balance of the Branch Account, and in the Branch books by the *credit* balance of the Head Office Account. The latter takes the place, in the Branch books, of the Capital Account in an ordinary trader's books. Should a branch have opening entries to record in its ledger, the excess of assets over liabilities would not be shown as Capital, but as a balance due to the Head Office. The Head Office Account is sometimes called the **Head Office Current Account** and sometimes the **Head Office Adjustment Account**; in these cases, the Branch Account in the Head Office books corresponds accordingly.

**Remittance Account.**—The Branch remits, at intervals, a round sum to the Head Office in reduction of the amount it owes. This money is sometimes credited direct to the Branch Account; and sometimes it is put to the credit of a Remittance Account. It all depends on how frequently the Branch remits. Where remittances are made in moderate sums, and are, therefore, fairly numerous, the Branch Account would get cumbered with overmuch detail. A separate Remittance Account has the great advantage, in such cases, of keeping a lot of unnecessary details out of the Branch Account, thus simplifying it and making it very much clearer. At balancing time, however, the total of the Remittance Account must be transferred to the credit of the Branch Account, so as to show the correct amount of the Branch's indebtedness to the Head Office at that date. In the Branch books the Remittance Account is designated "**Remittances to Head Office,**" the counterpart of this account in the Head Office books being styled "**Remittances from Branch.**"

**Transactions between Branches.**—Where there are several



branches, each permitted to have credit dealings with the others, they will keep a **Current Account** with each other, as well as with the Head Office. At balancing time, the balances of these current accounts will be liabilities and assets of the branches, as between themselves, but not liabilities and assets of the business as a whole. When the General Balance Sheet is prepared in tabular form, they must be shown in their proper column, in order to make the vertical totals agree; but, even then, they are often excluded from the horizontal totals. A tabular Balance Sheet, however, is only for the benefit of the business, and when the General Balance Sheet is framed for publication, should that be necessary, the balances of the Head Office Current Accounts, the Branch Current Accounts, and the inter-Branch Current Accounts, being *contras*, can easily be eliminated.

**Remittances and Goods in Transit.**—It frequently happens that the Current Accounts and Remittance Accounts, as shown by the Head Office and Branch Trial Balances respectively, do not correspond. This arises through the Branch forwarding a remittance to the Head Office on the last day of the period. The Branch, of course, has debited the Remittance Account with it; but the Head Office, not having received it until the first day of the new period, has not credited the Remittance Account. It also occurs when the Head Office forwards goods to the Branch on the last day of the year, and forthwith debits the Branch Account. The Branch, however, has not credited the Head Office, because it had not received the goods on that date.

Before the final entries can be attempted, the balances of the Current and Remittance Accounts must be made to agree. The amount of the goods must be deducted from the Branch Account in the Head Office books and put to a Goods in Transit Account. The value of the last remittance must likewise be deducted from the Remittance Account in the Branch books and put to a Remittance in Transit Account. The adjustments will be effected by means of Journal entries, and these two items will then appear on the Balance Sheet. In the next period they will be written back, that is, fresh Journal entries will be made reversing the previous ones.

**Example.**—(Trading and Profit and Loss Account items have been omitted, and the others summarised, for the sake of clearness.)

## HEAD OFFICE TRIAL BALANCE, 31ST DEC., 19...

	<i>Dr.</i>			<i>Cr.</i>		
Sundry Assets .. .. .	12,705	2	3			
Capital .. .. .				11,000		
Sundry Creditors .. .. .				3,400	9	7
Branch Current Account .. .. .	2,845	7	4			
(£300 of this is for goods sent on the 31st Dec.)						
Remittances from Branch .. .. .				1,150		
	15,550	9	7	15,550	9	7

## BRANCH TRIAL BALANCE, 31ST DEC., 19...

	<i>Dr.</i>			<i>Cr.</i>		
Sundry Assets .. .. .	1,720	11	2			
Sundry Creditors .. .. .				425	3	10
Head Office Current Account .. .. .				2,545	7	4
Remittances to Head Office .. .. .	1,250					
(£100 of this represents a remittance made on 31st Dec.)						
	2,970	11	2	2,970	11	2

The effect of the adjustments is as follows—

## HEAD OFFICE TRIAL BALANCE.

	<i>Dr.</i>			<i>Cr.</i>		
Branch Current Account .. .. .	2,545	7	4			
Goods in Transit .. .. .	300					
Remittances from Branch .. .. .				1,150		

## BRANCH TRIAL BALANCE.

	<i>Dr.</i>			<i>Cr.</i>		
Head Office Current Account .. .. .				2,545	7	4
Remittances to Head Office .. .. .	1,150					
„ in Transit .. .. .	100					

Eliminating the contra Current and Remittance Accounts, the Balance Sheet would appear thus—

## BALANCE SHEET AS AT 31ST DEC., 19...

Capital .. ..	11,000			Sundry Assets .. ..	14,425	13	5
Sundry Creditors .. ..	3,825	13	5	Goods in Transit .. ..	300		
				Remittance in Transit .. ..	100		
	14,825	13	5		14,825	13	5

**Example 6.**—From the following Trial Balance of the Branch books, prepare the necessary Journal entries to incorporate the figures in the Head Office books, and show the final accounts in the Branch Ledger and also in the Head Office Ledger.

## BRANCH TRIAL BALANCE, 31ST DEC., 19...

	Dr.			Cr.		
Head Office Account, 1st Jan., 19.. ..				3,387	10	2
Remittances to Head Office .. ..	2,050					
Cash in hand .. ..	162	11	5			
Sundry Debtors.. ..	826	10	6			
Stock, 1st Jan., 19.. ..	620	15	0			
Purchases from Head Office .. ..	2,562	7	6			
Carriage inwards .. ..	78	15	2			
Sales .. ..				3,750	16	11
Horses and Carts .. ..	225					
Furniture and Fixtures .. ..	66	10				
Sundry Creditors .. ..				120	17	8
Discounts received .. ..				6	15	7
Wages and Salaries .. ..	407	16				
Rent, Rates, and Taxes .. ..	85	7	4			
Discounts allowed .. ..	72	3	6			
Sundry Expenses .. ..	52	3	5			
Bad Debts .. ..	27	10	6			
Depreciation .. ..	28	10				
	7,266	0	4	7,266	0	4
Stock 31st Dec., 19.., £750.						

## HEAD OFFICE JOURNAL.

	Dr.	Cr.
19..		
Dec. 31		
Remittances from Branch .. ..	2,050	
To Branch Account .. ..		2,050
Balance transferred.		



Dr.		BRANCH TRADING ACCOUNT.				Cr.	
19..					19..		
Dec. 31	To Branch A/c—				Dec. 31	By Branch A/c—	
	Stock .. .. .	620	15			Sales .. .. .	3,750 16 11
	Purchases .. ..	2,562	7	6		Stock .. .. .	750
	Carriage inwards ..	78	15	2			
"	" Branch P. & L. A/c	1,238	19	3			
	(gross profit)						
		4,500	16	11		4,500	16 11

Dr.		BRANCH PROFIT AND LOSS ACCOUNT.				Cr.	
19..					19..		
Dec. 31	To Branch A/c —				Dec. 31	By Branch	
	Wages and Salaries	407	16			Trading A/c ..	1,238 19 3
	Rent, Rates, Taxes	85	7	4		(gross profit)	
	Discounts Allowed	72	3	6	"	" Branch A/c—	
	Sundry Expenses ..	52	3	5		Discounts Received	6 15 7
	Bad Debts .. .. .	27	10	6			
	Depreciation .. ..	28	10				
"	" (H.O.) P. & L. A/c	572	4	1			
	(net profit)						
		1,245	14	10		1,245	14 10

## BRANCH LEDGER.

Dr.		REMITTANCES TO HEAD OFFICE.				Cr.	
19..					19..		
Jan.-Dec.	To Cash .. .. .	2,050			Dec. 31	By Head Office A/c	2,050

Dr.		HEAD OFFICE ACCOUNT.				Cr.	
19..					19..		
Dec. 31	To Remittance				Jan. 1	By Balance .. ..	3,387 10 2
	to H. O. A/c ..	2,050			Dec. 31	" P. & L. A/c ..	572 4 1
"	" Balance c/d ..	1,909	14	3		(net profit)	
		3,959	14	3			3,959 14 3
					19..		
					Jan. 1	By Balance b/d ..	1,909 14 3

## TRADING AND PROFIT AND LOSS ACCOUNT,

Dr.

*For the Year ending 31st Dec., 19...*

Cr.

To Stock, 1st Jan...	620	15			By Sales .. . . .	3,750	16	11
" Purchases					" Stock, 31st Dec.	750		
from H. O. ..	2,562	7	6					
" Carriage In. ..	78	15	2					
" Balance .. c/d	1,238	19	3					
(gross profit)								
	4,500	16	11			4,500	16	11
To Wages and					By Balance .. b/d	1,238	19	3
Salaries .. . .	407	16			(gross profit)			
" Rent, Rates,					" Discounts			
and Taxes ..	85	7	4		Received ..	6	15	7
" Discounts								
Allowed .. .	72	3	6					
" Sundry Exps. ..	52	3	5					
" Bad Debts ..	27	10	6					
" Depreciation ..	28	10						
" Head Office A/c	572	4	1					
(net profit)								
	1,245	14	10			1,245	14	10

## BALANCE SHEET AS AT 31ST DEC., 19...

<i>Liabilities.</i>				<i>Assets.</i>			
Sundry Creditors .. . . .	120	17	8	Cash .. . . .	162	11	5
Head Office A/c .. . . .	1,909	14	3	Sundry Debtors .. . . .	826	10	6
				Stock .. . . .	750		
				Horses and Carts, <i>less</i> de-			
				preciation .. . . .	225		
				Furniture and Fixtures <i>less</i>			
				depreciation .. . . .	66	10	
	2,030	11	11		2,030	11	11

The foregoing method would apply to both retail and wholesale branches, the principal difference between the two being that, in the latter, the trade would assume much larger proportions, and the turnover might run into tens and hundreds of thousands, with the other figures correspondingly large.

## III. FOREIGN BRANCHES.

The special features of foreign branches, from a book-keeping point of view, are the conversion of the accounts



from currency into sterling, and the difficulties arising from fluctuations in the rate of exchange.

The Branch forwards to the Head Office a copy of its trial balance in currency, and the Head Office is obliged to convert the various items into sterling before it can bring them to account. The Remittance Account is, of course, already converted, the remittances having been cashed at the rate of exchange ruling on the day they were received. The value in sterling of the Head Office Account is also known, being the amount brought forward from the last balancing.

Where the rate is fairly stable, slight fluctuations are not taken into consideration, and the accounts, with the exception of the two mentioned previously, are converted into sterling at a **fixed rate of exchange**. This formerly applied to places like Paris, Berlin, New York, etc.

In other cases where the rate of exchange is subject to violent fluctuations, the conversion of the accounts into sterling at a uniform rate would result in showing fictitious Branch profits or losses. To obviate this, the accounts are converted at different rates, as under—

- (1) Remittances at actual rate of the day when made.
- (2) Fixed assets at the rate of the day when purchased ; additions, however, are often converted at the average rate for the period.
- (3) Floating assets and liabilities at the current rate at the date of balancing the books.
- (4) Revenue items at the average rate for the year or period.

If, after conversion into sterling, the two columns of the Trial Balance do not agree, the totals must be made to correspond by writing in the balance on the lesser side, designating it "**Exchange Account.**" A debit amount denotes a loss ; an amount on the credit side would signify a gain.

Where, however, the items are all converted at the same fixed rate, there will be no difference in exchange except in the Remittance Account.

**Rule for Conversion.**—Divide the currency amount by the rate, after adding on noughts to clear any decimals in the divisor ; the quotient will be the number of pounds. Multiply the remainder by 20 and divide, the result will be the number of shillings ; multiply the last remainder by 12

and divide again, the quotient will be the number of pence.

**Example 7.**—Convert the following Trial Balance into sterling.

CHICAGO BRANCH TRIAL BALANCE, 31ST DEC., 19...

	<i>Dr.</i>		<i>Cr.</i>	
	Dols.	Cents.	Dols.	Cents.
Head Office Account, 1st Jan., 19...			34,045	
Remittances to Head Office .. ..	15,000			
Stock, 1st Jan., 19.. ..	5,260			
Fixtures and Fittings .. ..	2,660			
Purchases .. ..	18,920			
Sales .. ..			34,610	
Debtors .. ..	10,600			
Bills Receivable .. ..	6,500			
Creditors .. ..			2,520	
Discounts allowed .. ..	675			
"    received .. ..			330	
Sundry Expenses .. ..	1,420			
Wages and Salaries.. ..	3,500			
Rent, Rates, Taxes, and Insurance	780			
Bad Debts .. ..	550			
Depreciation.. ..	140			
Cash at Bank .. ..	5,000			
"    in hand .. ..	500			
	71,505		71,505	
Stock, 31st Dec., 19.., \$5,500				

Rate of Exchange at date of last balancing .. ..	4.88
"    "    31st Dec., 19.. (current rate) .. ..	5.05
Average rate for year .. ..	4.95

The Branch Account and the Remittances from Branch Account appear in the Head Office books as £6,757 10s. 8d. and £2,961 15s. 6d. respectively.

## CHICAGO BRANCH TRIAL BALANCE, 31ST DEC., 19...

	Rate of Con- version.	Dr.			Cr.		
		£	s.	d.	£	s.	d.
Head Office A/c, 1st Jan., 19..	—				6,757	10	8
Remittances to Head Office	—	2,961	15	6			
Stock, 1st Jan., 19..	4.88	1,077	17	5			
Fixtures and Fittings ..	4.88	545	1	8			
Purchases .. ..	4.95	3,822	4	5			
Sales .. ..	4.95				6,991	18	5
Debtors .. ..	5.05	2,099	0	2			
Bills Receivable .. ..	5.05	1,287	2	7			
Creditors .. ..	5.05				499	0	2
Discounts Allowed .. ..	4.95	136	7	3			
" Received .. ..	4.95				66	13	4
Sundry Expenses .. ..	4.95	286	17	4			
Wages and Salaries .. ..	4.95	707	1	5			
Rent, Rates, Taxes, and							
Insurance .. ..	4.95	157	11	6			
Bad Debts .. ..	4.95	111	2	3			
Depreciation .. ..	4.95	28	5	8			
Cash at Bank .. ..	5.05	990	2	0			
" in hand .. ..	5.05	99	0	2			
Exchange Account (loss) ..	—	5	13	3			
		14,315	2	7	14,315	2	7
Stock at 5.05, 31st Dec. =							
£1,089 2s. 2d.							

The above figures can now be incorporated in the Head Office books by means of Journal entries similar to those given in Example 6, the result being a net profit of £1,814 13s. 5d.

Where the foreign branch, instead of forwarding a duplicate of its Trial Balance, sends over simply an audited copy of its Trading and Profit and Loss Account, and Balance Sheet, then only the net profit will require to be incorporated in the Head Office books. This is done by means of the following Journal entry—

HEAD OFFICE JOURNAL.		Dr.			Cr.		
19..							
Dec. 31	Branch (Current) Account.. ..	1,814	13	5			
	To Profit and Loss Account .. ..				1,814	13	5
	Transfer of profit on Chicago Branch						

If, however, a loss has been incurred, the above entry would need reversing.

**Depreciation.**—It should be noted that, in the case of foreign branches, this is often dealt with exclusively by the Head Office, and on the *sterling* figures. Some accountants consider it incorrect to convert depreciation at the average rate for the year, even though it is a Revenue item, and prefer to convert fixed assets, and the depreciation of them, at the same rate. In such cases the Head Office would make an adjusting entry in its Journal, thus—

Depreciation	<i>Dr.</i>
To Branch (Current) Account	<i>Cr.</i>

It would also send a credit note for the amount to the Branch, which would pass the item through its books by means of the following Journal entry—

Head Office (Current) Account	<i>Dr.</i>
To Fixtures and Fittings	<i>Cr.</i>

**Mine, Plantation, etc.**—In the case of a foreign mine or plantation (tea, rubber, tobacco, etc.), making monthly returns of its cash expenditure on capital and revenue account, the Head Office journal and ledger would be ruled with double columns, one for currency and one for sterling; and both sets of figures would be recorded. At balancing time the conversion would take place—according to the special circumstances mentioned before—either at a fixed rate or at varying rates. A Remittance Account is employed; and the peculiarity of this is that the remittances are not, as in the previous examples, from the Branch to the Head Office, but from the Head Office to the mine or plantation. The reason of this is that the output or crop is forwarded to Europe and there disposed of, the proceeds passing through the Head Office books only.

**BREAK-UP VALUE.**—(See DEPRECIATION.)

**BROUGHT DOWN.**—(See BALANCE.)

**BROUGHT FORWARD.**—(See BALANCE.)

**BY.**—A prefix used when posting transactions on the credit side of a ledger account. Every transaction affects two accounts; and one account is said to be *debtor to*, or *creditor by*, the other.

**BY-PRODUCTS ACCOUNT.**—(See COST ACCOUNTS.)

**CALL ACCOUNT.**—(See COMPANY.)

**CALL BOOK.**—(See COMPANY.)

**CALLED-UP CAPITAL.**—(See COMPANY.)

**CALLS IN ADVANCE.**—(See COMPANY.)

**CALLS IN ARREAR.**—(See COMPANY.)

**CALLS UNPAID.**—(See COMPANY.)

**CAPITAL.**—When a business is first started, the capital is very often simply the cash invested in it; afterwards, however, it is the total of the various business assets. And when there are liabilities, then it is the excess or surplus of the assets over the liabilities, that is, the difference between what the business possesses and what it owes. In the case of a Joint Stock Company, however, capital is the amount contributed by the shareholders, irrespective of the assets and liabilities.

When the initial capital is all Cash, the Journal entry—

Cash		<i>Dr.</i>
	To Capital	<i>Cr.</i>

is unnecessary; the amount should be entered direct into the Cash Book on the receipts' side "*To Capital*," and posted to the Capital Account in the ledger. When the opening capital is the total of the various assets, or the excess of sundry assets over sundry liabilities, the capital will be entered in the Journal and posted from thence to the Capital Account. The Cash and Bank balances will be entered from the Journal into the Cash Book "*To Capital*" or "*To Balance*," but must *not* be posted to the Capital Account, as they are already included in the amount shown as capital in the Journal.

**Example 1—**

<i>Dr.</i>				CASH BOOK.				<i>Cr.</i>							
Date.		Receipts.		Cash.		Bank.		Date.		Payments.		Cash.		Bank.	
19..															
Jan. 1		To Capital		50		1,950									

<i>Dr.</i>		CAPITAL ACCOUNT.				<i>Cr.</i>	
				19..			
				Jan. 1	By Cash .. ..	2,000	

## Example 2—

JOURNAL.					Dr.			Cr.
19..								
Jan. 1	Cash .. ..	20						
	Bank .. ..	1,600						
	Goods .. ..	300						
	Fixtures .. ..	80						
	To Capital .. ..						2,000	

CASH BOOK.								Dr.	Cr.
Date.	Receipts.	Cash.	Bank.	Date.	Payments.	Cash.	Bank.		
19..									
Jan. 1	To Balance.	20	1,600						

CAPITAL ACCOUNT.								Dr.	Cr.
				19..					
				Jan. 1	By Sundries .. ..	2,000			

## Example 3—

JOURNAL.					Dr.			Cr.
19..								
Jan. 1	Cash .. ..	50						
	Bank .. ..	900						
	Debtors .. ..	1,200						
	Goods .. ..	500						
	Fixtures .. ..	120						
	To Creditors .. ..						500	
	„ Bills Payable .. ..						270	
	„ Capital .. ..						2,000	
		2,770					2,770	

CASH BOOK.								Dr.	Cr.
Date.	Receipts.	Cash.	Bank.	Date.	Payments.	Cash.	Bank.		
19..									
Jan. 1	To Balance..	50	900						



CAPITAL ACCOUNT.		Dr.	Cr.
19..			
Jan. 1	By Balance .. ..	2,000	

In the first case the capital is the Cash ; in the second case, it is the total of the assets ; in the third case, it is the difference between the assets and the liabilities. In the first example, the Capital Account is opened from the Cash Book, because the Cash is the *whole* of the capital ; in the other two examples, the Capital Account is opened from the Journal, because the cash formed merely a *part* of the capital. It is a very common error on the part of students, however, to open the Capital Account in the Ledger from the Journal and from the Cash Book as well, thus including the cash and bank balances *twice*.

**Capital a Liability.**—It will be noted that Capital appears in the books as a liability. That is because the business is regarded as a separate entity. The capital does not belong to the business, but is merely a debt due by it to the proprietor. A trader, therefore, appears in his business books as a creditor of his business for the amount of his capital.

**Authorised Capital.**—(See COMPANY.)

**Called-up Capital.**—(See COMPANY.)

**Circulating Capital.**—(See FLOATING CAPITAL.)

Debenture Capital.—(See COMPANY.)

**Fixed Capital.**—(See **FIXED ASSETS.**)

**Floating Capital.**—(See FLOATING ASSETS.)

**Increase of Capital.**—(See COMPANY.)

Issued Capital.—(See COMPANY.)

**Negative Capital.**—The amount of credit which a trader or firm can obtain.

**Nominal Capital.**—(See COMPANY.)

**Paid-up Capital.**—(See COMPANY.)

**Positive Capital.**—That which consists of material assets, *i.e.*, Cash, Buildings, Land, Stock, Plant and Machinery.

**Reduction of Capital.**—(See under REDUCTION.)

Registered Capital.—(See COMPANY.)

Share Capital.—(See COMPANY.)

Subscribed Capital.—(See COMPANY.)

**Trading Capital.**—That which is comprised by the fixed and floating assets.

**Working Capital.**—The amount left, after purchasing a

business, for working it with. Thus, if a trader or company had an initial capital of £10,000 and paid £7,000 of it for a business, then £3,000 would remain as working capital. The term is also applied to the floating assets, and, in the case of a limited company, to debentures, the money from which is used for working the business. In the Double Account System it is the excess of Capital Receipts over Capital Expenditure.

**CAPITAL ACCOUNT.**—The private account of the proprietor, or partners, in relation to the business. It shows the capital invested, the interest allowed on it, the profits or losses of the business, and the personal drawings.

**Example—**

Dr.				CAPITAL ACCOUNT.				Cr.			
19..								19..			
Dec. 31	To Drawings ..	250		19..	Jan. 1	By Balance ..	5,061	15	3		
"	" Balance c/d ..	5,421	12 9	Dec. 31	" Interest ..	253	1	9			
				"	" Profit ..	356	15	9			
		5,671	12 9				5,671	12	9		
				19..	Jan. 1	By Balance b/d ..	5,421	12	9		

**Fixed Capital Accounts.**—(See PARTNERSHIP ACCOUNTS.)

**CAPITAL ACCOUNT.**—(See DOUBLE ACCOUNT SYSTEM.)

**CAPITAL AND REVENUE.**—The proper distinction between Capital and Revenue (Profit and Loss), as regards both receipts and expenditure, is one of the fundamental principles of correct accounting. Though of special importance in the Double Account System, it is, nevertheless, very essential even to an ordinary business man that this distinction should be observed, and amounts rightly allocated between Capital and Revenue. Failure or neglect to discriminate between the two will falsify the whole of the results of the book-keeping. For example, machinery may be purchased, and charged to the Purchases Account; a new wing may be added to the premises, and debited to the Repairs Account; some of the assets may be sold, and the proceeds treated as a profit. In each case both the Profit and Loss Account and Balance Sheet would be inaccurate and misleading. These and similar mistakes are very easily made, and if allowed to remain would soon reduce the book-keeping to a hopeless muddle.

The student, too, is confronted with the same difficulty

every time he is given a Trial Balance and requested to prepare a Trading and Profit and Loss Account and Balance Sheet. He must be able to pick out the Capital items from the Revenue items, that is, he must know which to place in the Trading and Profit and Loss Account, and which to put in the Balance Sheet.

**Capital Expenditure** may be said to consist of expenditure incurred in acquiring assets for the purpose of earning income, or increasing the earning capacity of the business; for example, Land and Buildings or additions thereto, Patent or Mining Rights, Plant and Machinery or additions thereto.

**Revenue Expenditure** comprises all repairs, renewals or replacements, and depreciation of the fixed assets, and also the current expenses of carrying on the business, such as rent, rates and taxes, wages and salaries, carriage, insurance, and other trade charges.

In the following examples a distinction has been drawn between Capital and Revenue items in order further to illustrate the subject—

Purchase of Lease	..	..	..	..	..	Capital.
Repairs to Leasehold Premises			..	..	..	Revenue
Ground Rent of same	..	..	..	..	..	Revenue.
Annual amount written off Lease			..	..	..	Revenue.
Purchase of additional Engines			..	..	..	Capital.
Repairs to same	..	..	..	..	..	Revenue.
Depreciation of same	..	..	..	..	..	Revenue.
Installation of Electric Light and Telephone					..	Capital.
Annual Charge for Maintenance of same					..	Revenue
New Wing to Premises	..	..	..	..	..	Capital.
New Wheels to Carts	..	..	..	..	..	Revenue.
Purchase of additional Carts			..	..	..	Capital.
Sale of old Cart (depreciated value in books, £10) for £5, and purchase of new Cart for £50 in place of it:—						
Loss on Sale of old Cart, £5			..	..	..	Revenue.
Cost of new Cart, £50			..	..	..	Capital.
Patent Rights	..	..	..	..	..	Capital.
Renewal Fees for same	..	..	..	..	..	Revenue.

Although the above general rules have been laid down, the question is, nevertheless, very complicated at times. For instance, **carriage** is a revenue expense; but if we purchase machinery and pay carriage on it, the carriage then becomes capital expenditure, and must be added to the machinery as part of its cost. **Wages** are a revenue item; but if we buy plant and employ our own workmen to erect it, their wages then become capital expenditure, and must be added to the

plant as part of its cost. **Repairs** are a revenue charge ; but if we purchase second-hand machinery, and pay for some immediate repairs necessary to make it efficient for our purpose, then such repairs become capital expenditure, and must be added to the machinery as part of its cost. Again, **legal expenses** are a revenue item ; but when purchasing a house, the legal expenses for conveyancing are capitalised, that is, added to the price of the house as part of its cost. Under the Double Account System, **interest on capital** during the construction of works or buildings or plant is regarded as capital expenditure, *i.e.*, treated as part of the cost of such items.

As regards Receipts there is less difficulty, owing to the sources being comparatively few in number as compared with the expenses. There is still, however, the risk of error, as in the case of the trader who regarded a loan from a friend as a *profit* when he received it and as a *loss* when he repaid it ; whereas, in *neither* case should it have appeared in the Profit and Loss Account. And in the case of another trader who, selling for £10 some old fixtures (included in the Fixtures Account at their original cost of £50), treated the £10 as a profit ; whereas he should have credited the £10 to the Fixtures Account, and have written off £40 as a loss !

**Capital Receipts** would be any additional capital paid in, money borrowed, or the proceeds from the sale of any assets.

**Revenue Receipts**, or **Income**, would be the profit arising from the sales, discounts received, commission earned, interest on any investments, etc.

**CAPITALISED PROFITS.**—(See BONUS SHARES.)

**CARD LEDGERS.**—(See LOOSE LEAF LEDGERS.)

**CARRIAGE.**—The charge made for the conveyance of goods *by land*, as opposed to freight. Goods are sold either (a) **carriage paid**, in which case the seller pays the carriage, or (b) **carriage forward**, which means that the buyer is to pay the carriage. In the absence of any express stipulation to the contrary, goods are sold where they stand, that is, the buyer must pay the carriage. In cases of dispute, however, the person who hires the carrier would be responsible *at law* for the payment of the carrier's usual charges.

**Carriage Account.**—In elementary book-keeping each item of carriage on goods *purchased* is charged to the Goods Account ; while each item of carriage on goods *sold* is debited to the Trade Expenses Account. But, in the intermediate

and advanced stages, a separate subsidiary expense account is opened for all items of carriage. The great majority of accountants subdivide the Carriage Account into two parts, viz., inwards and outwards.

**Carriage Inwards** is the carriage on goods or raw materials *bought*. This, being a purchase expense increasing the cost of the articles, is charged to the Trading Account.

**Carriage Outwards** is the carriage on goods *sold*. This, being a selling or distribution expense, is debited to the Profit and Loss Account.

**Carriage and Cartage.**—This item, comprising both inwards and outwards carriage, is, in the books of builders and contractors, and in a few other businesses, charged to the Trading Account. The reason is that the outwards carriage and cartage has been reckoned or allowed for (often at a profit) in the estimate for the contract or job, and is, therefore, included in the Sales.

**Carriage on an Asset or Stores.**—Whenever an asset such as machinery, furniture, etc., is purchased, or stores bought for own use or consumption, such as coal, wood, oil, etc., and inwards carriage is paid on them, then the carriage must *not* be charged to the Carriage Inwards Account but to the asset or stores, as it adds to the cost of same. Inwards carriage must only be charged to the Carriage Inwards Account when it represents carriage on goods bought *for re-sale*.

**Carriage on Consignments and Joint Adventures.**—Carriage on a consignment outwards is charged to the Consignment Account, on a consignment inwards to the person or firm to whom the goods belong. In the case of a joint adventure the carriage is charged to the Joint Account.

**Carriage on Returns, Empties, etc.**—Goods, packages, empties, etc., are expected to be returned carriage paid; and if they are not, the carriage paid out on them should be charged through the Petty Cash Book to the account of the customer concerned.

**Carriage Charged in Day Book.**—For the convenience of customers, carriage is often paid on goods sold, and debited to them in the Day Book and on the invoice. When this is done, the total of the Day Book must not be posted to the Sales Account; but it should be analysed into so much Sales and so much Carriage. The Carriage amount can then be credited to the Carriage Outwards Account. Failing this,



the Carriage Outwards Account must be debited to the Trading Account, in order to neutralise the amount of outwards carriage included in the total Sales. But even then, if such items are very numerous, the turnover shown by the books would be entirely fictitious ; so that dissection, and posting to proper accounts, is by far the better method of dealing with the matter.

**CARRIED DOWN.**—(See BALANCE.)

**CARRIED FORWARD.**—(See BALANCE.)

**CARTAGE or CARTING.**—The charge made for carting goods to the docks for shipment, or from the docks to warehouses, or from the seller's shop to the buyer's place of business. Inwards cartage, that is, on goods *bought*, should be debited to the Trading Account ; and outwards cartage, that is, on goods *sold*, should be charged to the Profit and Loss Account. Separate subsidiary accounts may be opened for these items if necessary, or they can be merged in the Carriage accounts, as is often done. The remarks on "Carriage charged in Day Book" apply also to Cartage charged to customers in a similar manner.

**CASE OF NEED.**—(See BILL OF EXCHANGE.)

**CASES, SACKS, BAGS, ETC.**—(See PACKAGES.)

**CASH.**—In book-keeping a general term, including coin and various kinds of money remittances, called by bankers "cash articles," *e.g.*, cheques, postal orders, money orders, stamps, bank notes, etc.

**CASH ACCOUNT.**—In elementary book-keeping this is a simple ledger account to which all the receipts and payments of money are posted. It only becomes necessary when cash transactions are journalised. In the intermediate and advanced stages it is superseded by the Cash Book.

**CASH ARTICLES.**—(See CASH.)

**CASH AT BANK, DIVIDEND ACCOUNT.**—This item figuring in a Balance Sheet indicates that a dividend has been declared, but that some of the shareholders have not cashed their dividend warrants. Hence, on the liabilities side there will appear the item "unclaimed" or "unpaid dividends," and on the assets' side a similar amount of cash ready to meet them.

**CASH AT BANK, PENSION FUND ACCOUNT.**—This item, which is sometimes found in a Balance Sheet, shows that the firm or company have created, out of profits, a Pension Fund for the benefit of their employees ; and that a certain amount



of cash has been "ear-marked" or set aside specially for the payment of the pensions.

**CASH BOOK.**—A book of first or original entry employed for the purpose of recording all cash transactions—both receipts and payments. Although used as a subsidiary book, the Cash Book is really an integral part of the ledger, being nothing more than two ledger accounts—the Cash Account and the Bank Account—taken out of the ledger and bound in a separate book for the sake of simplicity and convenience. Being ledger accounts, the balances of the Cash and Bank columns must be entered in the Trial Balance and Balance Sheet whenever these are made out.

**Forms of Cash Book.**—There are various forms of Cash Books. Some have only one money column on each side, Cash or Bank; some have two columns, Cash and Discount, or Cash and Bank where discount is not required; while the modern business Cash Book possesses three columns: Discount, Cash, and Bank.

### Example 1—

Dr.		CASH BOOK.						Cr.	
Date.	Receipts.	Led. Fol.	Cash (or Bank).			Date.	Payments.	Led. Fol.	Cash (or Bank).

### Example 2—

Dr.		CASH BOOK.								Cr.	
Date.	Receipts.	Led. Fol.	Dis-count.	Cash.		Date.	Payments.	Led. Fol.	Dis-count.	Cash.	





**"Cross " or "Contra " Entries.**—Inasmuch as all money is received at the office, there accumulates at times more than is required, so some of it is banked. Again, at other times there is a shortage in the office, and then money has to be drawn from the Bank and put back into the office cash-box or till. These two kinds of transfers which are constantly being made seem to give students considerable difficulty. They generally make one entry and omit the contra entry. The trouble arises from the fact that, although only *one* statement is made, such as "*Drew from Bank,*" or "*Paid into Bank,*" yet *two* entries are implied or involved. For the sentences themselves are elliptical. "*Drew from Bank*" really means "*Drew from Bank and paid into Office.*" And "*Paid into Bank*" really means "*Drew from Office and paid into Bank.*" Hence it will be seen that in each case a double entry is necessary. If we have two pockets of money, we cannot take some out of one and put into the other without affecting *both* pockets; for at the same time that we are increasing the one, we are decreasing the other. Therefore, whenever the student meets with either of the above sentences he must remember that it is a "cross" or "contra" entry, that is, an item which must be entered on *both* sides of the Cash Book. The other transactions only require one entry, a receipt being put on the debit side, and a payment being placed on the credit side.

**Personal Drawings.**—Another point which perplexes students is the item "*Drew for self.*" This is not a cross entry, for it is not the same as "*Drew from Bank,*" with which so many students confound it. When cash is drawn from the Bank it is put into the Office; but when cash is drawn for self, the money goes into the proprietor's pocket. Hence the transaction "*Drew for self*" is simply a *payment* by the business to the proprietor of it, and is, therefore, charged to his Drawing Account.

**Balancing the Cash Book.**—The Cash Book is balanced, that is, the difference between the totals of the receipt and payment columns ascertained, in pencil every day, and in ink periodically, at least once a month. The monthly balancing is done in order to avoid the labour (and probable risk of error) of continually carrying forward large totals on each side. The balance of the Cash columns represents the amount of cash in hand, and the balance of the Bank columns shows the state of the Bank Account.

**How to Post the Cash Book.**—The rule is to reverse the sides of a Cash Book when posting to the Ledger. That is to say, the cash on the *debit* side of the Cash Book will be posted on the *credit* side of the accounts mentioned; and the cash on the *credit* side of the Cash Book will be posted on the *debit* side of the accounts named. There is, however, a reason underlying this. It must be remembered that the Cash Book is really a Ledger account, hence the *Dr.* and *Cr.* sides. And if a transaction takes place between two ledger accounts, it is the same as between two persons—they must stand in opposite relationship to each other. There cannot be two debtors or two creditors of one transaction; one account must be debtor and the other account creditor. Now, transactions have taken place between the Cash Account and all the accounts stated on the receipts' side, and in each case Cash Account was *Dr.*; it, therefore, follows that the other accounts must be *Cr.* Again, transactions have taken place between the Cash Account and all the accounts enumerated on the payments side, and in every case Cash Account was *Cr.*; it, therefore, follows that the other accounts must be *Dr.* Discount, if any, is posted to the ledger at the same time as the cash, and should not be added to the cash, but entered as a separate item underneath it, in order to show clearly how the account was settled. Items in the Bank column are sometimes posted "*By Bank*" or "*By Cheque*" and "*To Bank*" or "*To Cheque*," instead of "*By Cash*" and "*To Cash*." But this is immaterial; the student can adopt whichever form he prefers. Transfers or cross entries are not posted at all, as they only refer to the Cash and Bank Accounts in the Cash Book, and do not affect any account in the ledger. A small *c* is generally placed against them in the folio column.

There is only one exception to the above rule of reversing the sides, and that is with the monthly totals of the Discount columns. These are not reversed, but are posted to the Discount Account exactly as they are in the Cash Book. When we look into this matter, however, we find it is only an apparent exception. Theoretically, the discounts are on their wrong sides. Discounts we allow or pay away ought to be on the *credit* side instead of on the *debit* side; and discounts we receive ought to be on the *debit* side instead of on the *credit* side. But, for the sake of convenience, the discount is always placed on the same side and on the same

line as the receipt or payment to which it relates. So when we come to post the totals of the Discount columns to the Discount Account we find them already reversed, and we have merely to enter them as they stand. The discount total goes the reverse way of the personal accounts. For instance, on the debit side of the Cash Book the personal accounts have been *credited* with discount; Discount Account must, therefore, be *debited* with the total in order to complete the double entry. And the same applies to the discounts on the credit side of the Cash Book; they have been *debited* to the personal accounts, and the total must, therefore, be *credited* to the Discount Account. Sometimes, however, the discount columns are balanced, and only the balance posted to the Discount Account; but this practice cannot be recommended.

The following items, selected from the worked example, would, when posted, appear in the Ledger as under—

Dr.		CAPITAL ACCOUNT.						Cr.	
					19.. Jan. 1	By Cash ..	1000		

Dr.		A. ADLER.						Cr.	
					19.. Jan. 2	By Cash ..	19		
					"	" Discount .	1		

Dr.		B. BROWN.						Cr.	
19..									
Jan. 3	To Cash ..	47	10						
"	" Discount .	2	10						

Dr.		TRADE EXPENSES.						Cr.	
19..									
Jan. 1	To Cash ..		8	4					
29	" " ..	10	2	6					



<i>Dr.</i>		DISCOUNT.				<i>Cr.</i>		
19.. Jan. 31	To Sundry Drs.	3	12	9	19.. Jan. 31	By Sundry Crs.	2	10

**Bank Cash Book.**—The form of Cash Book coming more and more into favour is that known as the Bank Cash Book. This is the ordinary three-column Cash Book adapted to a stricter organisation of the Cash department.

Printed and numbered carbon-copy receipts are issued for all money received, and no payments are allowed to be made out of any of this money. Every day the cash received, whether cheques or coin, is paid into Bank intact. All payments, except Petty Cash payments, are made by cheque.

The debit side of the Cash Book is written up from the Receipt Book, the amounts being entered in the Details column. The credit side is written up from the cheque book, that is, from the counterfoils of the cheques paid away, and the amounts entered in the Bank column, unless one cheque has been drawn for two or three purposes; then, the various items are shown in the Details column, and only the total of the cheque is written in the Bank column.

When money is paid into bank, no cross entry is made; the amount is simply extended into the Bank column on the receipts side. And when money is drawn for Petty Cash, an entry is made on the credit side "*By Petty Cash*"; but the contra entry appears, not on the debit side of this Cash Book, but on the debit side of a separate Petty Cash Book kept on the **imprest system**.

An extra column is sometimes found by the side of the folio column. Its purpose is to record the numbers of the printed receipts, and the voucher numbers or numbers of the cheques relating to the payments.

Such a Cash Book and system provide an effective check on the cashier, and greatly facilitate the work of the auditor.

An example follows; and a few specimen entries have been made in the Cash Book in order to exemplify its working.

## Example—

Dr.

## BANK CASH BOOK.

Cr.

Date.	Receipts.	Led. Fol.	Dis- count.	De- tails.	Bank.	Date.	Payments.	Led. Fol.	Dis- count.	De- tails.	Bank.
19.. 1	To Balance ..					19.. 1	By Petty Cash..				
Jan. 2	" Brown, A...		1 1	20 2 11	1,000	Jan. 2	" Rent .. ..				15
" "	" Smith, C...		3 2	2 59 1 4		7	" Wages ..			25	20
" "	" Deacon, F..			87 2 6		" "	" Drawing A/c			15	40
" "	" Pratt, D....			24 5 9	190 12 6	" "	" Porters, R.		2 1 2		39 2 2

**Note.**—The monthly or periodical agreement of the Bank balance, as shown by the Cash Book, with the Bank balance as shown by the Banker's Pass Book is explained and illustrated under the heading of RECONCILIATION ACCOUNT, to which the student should refer.

**CASH BOOK (TABULAR).**—(See **TABULAR SYSTEM**, also **SELF-BALANCING LEDGERS**.)

**CASH CREDIT.**—A credit of a stated amount granted by a banker to his customer against security, either personal or on the guarantee of sureties. The term is also applied to Overdrafts which bankers allow to their customers against deposit of lease, insurance policy, etc.

**CASH CREDITOR.**—Another term for **Loan Account**. The ordinary creditors are creditors for goods they have supplied ; a cash creditor is a creditor for money he has lent.

**CASH DISCOUNT.**—(See **DISCOUNT**.)

**CASHIER'S DEFALCATION—CASHIER'S EMBEZZLEMENT.**—A separate subsidiary account is opened for losses of this nature until recovered or written off. Such an item is generally allowed now as a charge against the profits when making **Income Tax Returns**, but not if recoverable under an indemnity bond.

**CASH PURCHASES.**—(See **PURCHASES**.)

**CASH SALES.**—(See **SALES**.)

**CATALOGUES, PRICE LISTS, ETC. — CATALOGUES, SAMPLE BOOKS, ETC.**—These are often included in the **Stationery Account**, but sometimes a separate subsidiary account is opened for them. The expense of compiling and printing catalogues, especially when numerous blocks have to be prepared for the illustrations, is often very heavy ; and it is usual in such cases for the cost to be spread over two or three years, the portion of the expenditure not written off being carried to the assets side of the **Balance Sheet**.

**CERTIFICATE OF INCORPORATION.**—(See **COMPANY**.)

**CESTUI QUI TRUST.**—The person who has the beneficial interest or enjoyment of property, the legal ownership of which is vested in the trustee.

**CHANGE ACCOUNT—CHANGE MONEY.**—In many businesses it is necessary for the cashier and sub-cashiers to have money advanced to them so as to be able to give change to customers. Instead of the chief cashier keeping **I O U's** for these sums, a cheque is often drawn for the total, and the amount posted to a special ledger account entitled "**Change**" or "**Change Money**." At balancing time the amount is added to the "**Cash in hand**" and shown as such on **Balance Sheet**.

**CHARITABLE GIFTS.**—(See **SUBSCRIPTIONS AND DONATIONS**.)

**CHECK FIGURE SYSTEM.**—This is a method of check,

based on the theory of remainders, by means of which errors in addition or posting may be readily located. The student will probably remember the system of proof by remainders used in arithmetic to verify multiplications, etc., such as casting out the nines or elevens. Several systems are in use, and any odd number from 7 to 19 may be used. Nine and eleven, however, have certain limitations, owing to their close relationship to ten; so that 13 and 19, applied in a different manner, are the numbers more generally favoured.

**Rule for 13.**—Divide the pounds by 13 and call the remainder shillings. Add half of this remainder to the shillings and pence of the amount under check. Subtract the pence from the shillings, and the difference will be the required check figure. Should the shillings be less than the pence, add 13 to the shillings before subtracting.

**Example 1.**—Ascertain the check figure of £917 12s. 11d.:  $917 \div 13$  leaves 7 remainder. Half of 7s. = 3s. 6d. 3s. 6d. + 12s. 11d. = 16s. 5d.  $16 - 5 = 11$  = check figure.

**Example 2.**—Ascertain the check figure of £366 4s. 11d.:  $366 \div 13$  leaves 2 remainder. Half of 2s. = 1s. 1s. + 4s. 11d. = 5s. 11d.  $(5 + 13) - 11 = 7$  = check figure.

An alternative method of dealing with the remainder from the pounds is sometimes adopted, in order to simplify the amounts to be added. Whenever the remainder is an *odd* number, add 13 to it. Take the half of the total and proceed as before.

**Example 3.**—Ascertain the check figure of £917 12s. 11d.:  $917 \div 13$  leaves 7 remainder.  $7 + 13 = 20$ .  $20 \div 2 = 10$ . 10s. + 12s. 11d. = 22s. 11d.  $22 - 11 = 11$  = check figure.

**Rule for 19.**—Divide the pounds by 19 and call the remainder shillings. Add this remainder to the shillings and pence of the amount under check. Subtract the pence from the shillings, adding 19 to the shillings, if necessary, to facilitate subtraction. The difference, after casting out any multiple of 19, will be the required check figure. An alternative method, when the pounds do not run into more than two figures, is to add the pounds to the shillings before dividing. To agree the totals of columns, multiply the number of shillings carried forward from the pence column by 13, or by  $\frac{1}{3}$ , i.e., divide by 3 (13 being the check figure of the fraction  $\frac{1}{3}$ ), and add the result to the check figure column.

**Example 1.**—Ascertain the check figure of £366 4s. 11d.  $366 \div 19$  leaves 5 remainder. 5s. + 4s. 11d. = 9s. 11d.  $(19 + 9) - 11 = 17$  = check figure.

**Example 2.**—Find the check figure of £98 18s. 10d.  $98 + 18 = 116$ .  $116 \div 19$  leaves 2 remainder.  $(19 + 2) - 10 = 11 =$  check figure.

**How the System is Used.**—When posting from any of the subsidiary books, the clerk ascertains the check figure of the amount he has just entered into the ledger. He then inserts this figure in a special column of the subsidiary book. At the end of the page the subsidiary book is added, also the column containing the check figures. If the posting and addition have been done correctly, the check figures of the totals of the two columns must agree. If they do not, it is evidence of the existence of an error.

**Example.**—Suppose the following to represent a page of the Day Book, and the figures in front of each amount to be the proper check figures, according to the 13 and 19 systems respectively, inserted when posting to the Ledger took place.

(13)	£ s. d.	(19)
4	96 18 10	9
1	149 19 8	8
5	78 16 11	7
5	265 18 9	8
7	57 16 5	11
1	49 19 10	1
10	78 17 7	12
2	159 18 11	14
7	79 19 6	16
8	158 17 10	13
<hr/>	<hr/>	<hr/>
11	1177 4 3	4
<hr/>	<hr/>	<hr/>
	(7) $7 + 3 = 2\frac{1}{2} = 15$	<hr/>
		0
		<hr/>

**Check Figures of Fractions.**—These (base number 19) are ascertained as follows—

Check Figure of 1d. = 1 = Check figure of 20 = check figure of 39.  $\therefore$  the check figure of  $\frac{1}{3} = 13$ ;  $\frac{2}{3} = 26 = 7$ ;  $1\frac{1}{3} = 1 + 13 = 14$ ;  $1\frac{2}{3} = 1 + 26 = 27 = 8$ ;  $2\frac{1}{3} = 2 + 13 = 15$ ;  $2\frac{2}{3} = 2 + 26 = 28 = 9$ ; and so on.

Check figure of 1d. = 1 = check figure of 20.  $\therefore$  check figure of  $\frac{1}{4}d. = 5$ , of  $\frac{1}{2}d. = 10$ , of  $\frac{3}{4}d. = 15$ . Thus the check figure of £9 6s.  $11\frac{1}{4}d. = 15 - 11 = 4$ ;  $(19 + 4) - 5 = 18 =$  check figure. The check figure of £16 4s.  $8\frac{3}{4}d. = 20 - 8 = 12$ ;  $(19 + 12) - 15 = 16 =$  check figure.

The check figure of £1177 4s. 3d. by the 13 system is  $(7 + 13) - 9$

The check figure of £1177 4s. 3d. by the 19 system is

$22 - 3 = 19 = 0$ . These check figures, it will be seen, agree with those in the respective check figure columns. This is, therefore, *primâ facie* evidence that the items in the Day Book have been correctly posted into the Ledger, and also that the Day Book itself has been accurately added.

**CHEQUE.**—A cheque is a written order on a banker to pay a stated sum of money to a stated person, or to his order, or to bearer.

**Example—**

No. 675141.	:	No. 675141	London,
4 Aug., 19..	:		4 Aug., 19..
	:	<b>THE SAFE BANK, LTD.</b>	(2d. Stamp.)
Brown & Son	:	Pay to Messrs. Brown & Son or	
	:	Order the sum of Forty pounds eleven	
	:	shillings and sixpence.	
£40-11-6	:	£40——11——6	H. Martin.

The form is perforated, so that it may be divided into two portions, the larger portion, called the **cheque**, being paid away, and the smaller portion, called the **counterfoil**, being retained for reference.

**Difference between a Cheque and a Bill of Exchange.**—By the Bills of Exchange Act, 1882, a cheque is defined as “a bill of exchange drawn on a banker payable on demand.” There are, however, some points of difference—

(1) A bill requires acceptance. A cheque is never accepted by a banker. The acceptor of a bill is liable to the holder for refusing payment of it; but a banker is not similarly liable to the holder of a cheque.

(2) The drawer of a bill is discharged from liability by delay in presenting it for payment; the drawer of a cheque is not.

(3) Notice of dishonour is necessary in the case of a bill not being met, but not in the case of a cheque.

**Revocation of Banker's Authority.**—The duty and authority of a banker to pay cheques drawn on him by his customer are determined by—

- (a) Countermand of payment;
- (b) Notice of the customer's death;



(c) Notice of an act of bankruptcy on the part of the customer ;

(d) Receipt of a garnishee order.

**Bearer and Order Cheques.**—A **bearer** cheque is one that can be cashed or negotiated without requiring indorsement. An **order** cheque is one that must be indorsed before it can be cashed or transferred. Only the drawer can alter a cheque from order to bearer, and the alteration must bear his initials ; but either the holder or drawer may amend a bearer cheque to an order cheque without the alteration being initialled.

**Crossed Cheques.**—Section 76 of the Bills of Exchange Act, 1882, says—

“(1) Where a cheque bears across its face an addition of—

“(a) The words ‘and company’ or any abbreviation thereof between two parallel transverse lines, either with or without the words ‘not negotiable’; or

“(b) Two parallel transverse lines simply, either with or without the words ‘not negotiable’; that addition constitutes a **crossing**, and the cheque is **crossed generally**.

“(2) Where a cheque bears across its face an addition of the name of a banker, either with or without the words ‘not negotiable,’ that addition constitutes a crossing, and the cheque is **crossed specially** and to that banker.”

Section 77 enacts—

“(1) A cheque may be crossed generally or specially by the drawer.

“(2) Where a cheque is uncrossed, the holder may cross it generally or specially.

“(3) Where a cheque is crossed generally, the holder may cross it specially.

“(4) Where a cheque is crossed generally or specially, the holder may add the words ‘not negotiable.’

“(5) Where a cheque is crossed specially, the banker to whom it is crossed may again cross it specially to another banker for collection.

“(6) Where an uncrossed cheque, or a cheque crossed generally, is sent to a banker for collection, he may cross it specially to himself.”

By Section 78—

“A crossing authorised by this Act is a material part of

the cheque ; it shall not be lawful for any person to obliterate or, except as authorised by this Act, to add to or alter the crossing."

(See AND CO.)

Although contrary to the provisions of the Act, it is no uncommon thing for a drawer to cancel a crossing and to write on it the words "*pay cash*." Payees often have no banking account, and consequently ask for this to be done ; and again, cheques drawn for Petty Cash, Wages, etc., sometimes get stamped with a crossing by mistake.

An **open** cheque is one that has not been crossed ; hence, one that can be cashed over the counter.

A **stale** cheque is one that is some months old—with some banks six months, with others twelve months. Bankers generally refuse to pay a stale cheque until reference has been made to the drawer.

A **forged** cheque is one on which the signature of the drawer is not genuine, or in which the name of the payee or the amount of the cheque has been falsified. A banker is supposed to know his customer's signature, and to be able to detect forgery ; and if he pays a forged cheque, the loss will fall upon himself. He is not, however, responsible for any loss caused by a cheque bearing a forged indorsement, as he cannot possibly know all the payees' signatures. In order to prevent as far as possible any fraudulent alteration of the amount of a cheque, some cheque forms have printed divisions at the side headed "*under £10*," "*under £20*," "*under £30*," and so on, and the amount of the cheque is written also in its proper division. Thus a cheque for £18 11s. 6d. would be written in the "*under £20*" space.

**Dishonoured Cheques.**—A dishonoured cheque is one which a banker has refused to pay on presentation. Such cheques usually bear some mark on them, such as N/A (no assets), N S (not sufficient funds), R/D (refer to drawer), N/E (no effects), I/F (insufficient funds).

In the Cash Book an entry must be made on the credit side, "*By —*" (*person from whom the cheque was received*).

**Post-dated Cheques.**—These are cheques which bear a date later than the current date. They must, therefore, be kept until the proper date before they can be cashed. By Section 13 of the Act, a cheque "is not invalid by reason only that it is post-dated."

In the Cash Book post-dated cheques should be entered "short," that is, the amount should not be extended into the money columns. This prevents their being forgotten or lost sight of. On the proper date they should be re-entered in the usual way.

**Example.**—On the 4th Aug. received from A. Brown a cheque for £20 2s. 11d. dated 14th Aug.

Dr.

## CASH BOOK.

Date.	Receipts.	Led. Fol.	Discount.	Office.	Bank.
19..					
Aug. 4	To A. Brown, £20 2s. 11d., d/d ..				
	Aug. 14 ..				
„ 14	„ A. Brown ..				20 2 11

If a banker inadvertently pays a post-dated cheque, he cannot debit his customer's account with it until the proper date.

**Indorsement of Cheques.**—Indorsing is the signing of the payee's name on the back of the cheque. It is quite legal if done on the front of the cheque, though it would be most unusual. Bearer cheques do not require an indorsement, but all order cheques must be indorsed. The payee should sign his name exactly as it is on the face of the cheque; but such titles as Mr., Mrs., Miss, Dr., Capt., Esq., etc., are unnecessary and may be omitted. The following indorsements should be carefully noted—

Cheque Payable to—	Indorsement.
Mrs. Smith	Jane (or other Christian name) Smith, or J. Smith.
Mrs. Arthur Brown	Mary Brown, wife of Arthur Brown.
Miss Mabel Jones (now married)	Mabel Smith or M. Smith, <i>née</i> Jones.
Robert Brown	Robert Brown, or R. Brown. The full Christian name is not important as long as the initials agree.

Cheque Payable to—	Indorsement.
John Gray, Junior	John Gray or J. Gray.
A. Clark (mis-spelling for Clarke)	A. Clark. A. Clarke.
Messrs. Brown	R. & S. Brown, or Brown & Son, or Brown Bros., or Browns.
— Smith, Esq.	J. (or other initial) Smith. The mere surname is not a signature.
The X. Y. Z. Co., Ltd.	The X. Y. Z. Co., Ltd. or Per pro. The X. Y. Z. Co., Ltd. or For and on behalf of The X. Y. Z. Co., Ltd. or On Account of The X. Y. Z. Co., Ltd. or For The X. Y. Z. Co., Ltd. A. Johnson, <i>Secretary.</i> The latter is the most usual form.
R. Archer (an illiterate person)	his R. <b>X</b> Archer mark. Witness : Alfred Looker, 110 Earl Street, Southfold.
The Misses Brown	Mary Brown Jane Brown Both must sign.
R. Brown (now deceased)	for R. Brown W. Rowe Executor (or Administrator) or For Self & Co.—Executors (or Administrators) of R. Brown W. Rowe The signature of one executor is sufficient.
The Trustees of R. Brown	For R. Brown F. Smythe W. Rowe A. Bottle } Trustees. All the trustees must sign.

Indorsements are sometimes made **per procuration**, thus—

*per pro.* (or *p.p.*) Robert Brown,  
H. F. Roberts.

The full name must be signed ; the initials “ H. F. R.” would not be sufficient. Indorsements *per pro.* are not accepted, however, on dividend warrants. Bankers are entitled to ask for confirmation of such indorsements if they deem it necessary.

**Fictitious or non-existing Payee.**—Where a cheque is payable to a fictitious or non-existing payee, such as a cheque drawn for *Wages, Petty Cash*, etc., it may, by Section 7 of the Bills of Exchange Act, 1882, be treated as a cheque payable to bearer, that is, as not requiring an indorsement. Some banks, however, request the person drawing the money to sign his name on the back of the cheque, while others require the personal signature of the drawer of the cheque ; but the majority cash such cheques without any indorsement.

**Alterations on Cheques.**—All alterations on a cheque must be initialled by the drawer. The amount expressed in words must agree with the amount stated in figures ; though where the two differ, the banker is bound by the *words*. It is the practice of bankers, however, to return such cheques to the drawer for correction.

**Foreign Cheque.**—A cheque received from abroad requires a 2d. stamp affixed to it before it can be dealt with in this country.

**Cheque not Legal Tender.**—It should be noted that a cheque is not legal tender, the only paper money which is legal tender in England and Wales being Bank of England notes for sums above £5, and Treasury 10s. and £1 notes for any amount.

**Receipt Form on Cheques.**—Many modern cheques have receipt forms at the foot or on the back of them, and the signature on the receipt is intended to act also as an indorsement of the cheque. Great care has to be used, however, in the wording of these cheques. A cheque payable to—— or order, *provided the receipt form on same is duly signed*, was held in the Courts *not* to be a cheque, as it imposed a condition ; whereas, by the Bills of Exchange Act, a cheque must be unconditional.

**Cheques sent by Post.**—Any loss arising through the miscarriage of a cheque sent by post falls upon the drawer. Having made the post his agent, he must be responsible for the actions of his agent. If, however, he has been requested by the payee to send a cheque by post, then the post becomes

the agent of the payee ; and the latter must, therefore, bear the loss.

**Lost Cheque.**—If a cheque is lost, the holder may compel the drawer to give him a new cheque, but must give security to the drawer if required to indemnify him in case the cheque should be found again.

**Property in Cheques.**—Many banks return cheques, when paid, to their customers, but some do not, although legally such cheques are the property of the drawer.

**CHEQUE BOOK.**—In order as far as possible to prevent fraud, bankers supply their customers with books of specially printed cheque forms, although a piece of ordinary paper, with a 2d. stamp affixed, ordering a banker to pay money, is just as legal. Each cheque, being an order to pay, must bear a 2d. stamp. Bankers supply the book of forms free, but debit their customers' accounts with the value of the stamps. An entry must be made on the credit side of the Cash Book—

By Office Expenses, or Trade Expenses, or Bank Charges	}	Bank
(book of 100 cheques)		Column.
		0 16 8

**CHIEF RENT.**—Same as QUIT RENT.

**CLOSING ENTRIES.**—Closing entries are the transfers of the various gains and losses from the nominal accounts themselves to a Profit and Loss Account or to a Trading and Profit and Loss Account, and the transfer of the net gain (or loss) and drawings to the Capital Account.

**Example 1.**—(Sole Trader and Goods Account.)

From the following Trial Balance prepare the usual closing entries, the Goods on hand being valued at £944 9s. 6d.

# TRIAL BALANCE, 31ST DEC., 19...

	Dr.			Cr.		
Capital Account .. .. .				3,545	18	6
Drawing Account .. .. .	300					
Plant and Machinery .. ..	585	9	3			
Furniture, Fixtures, and Fittings .	152	6	2			
Bills Receivable .. .. .	478	4	3			
Bills Payable .. .. .				430	2	11
Goods .. .. .	197	4	6			
Consignment .. .. .				175	16	2
Joint Account .. .. .				36	5	3
<i>Carried forward</i> .. .. .	1,713	4	2	4,188	2	10







JOURNAL— <i>continued.</i>				<i>Dr.</i>			<i>Cr.</i>		
31	Profit and Loss Account .. ..	1,753	12 6						
	To A. Brown, Capital A/c ( $\frac{1}{2}$ ) ..					876	16	3	
	„ J. Smith, „ „ ( $\frac{1}{2}$ ) ..					876	16	3	
	Transfer of net gain.								
31	A. Brown, Capital Account ..	550							
	To A. Brown, Drawing Account.					550			
	Transfer of drawings.								
31	J. Smith, Capital Account.. ..	550							
	To J. Smith, Drawing Account..					550			
	Transfer of drawings.								

## Example 3.—Trading Account.)

TRIAL BALANCE, 31ST DEC., 19...

				<i>Dr.</i>			<i>Cr.</i>		
Sundry Debtors .. ..	4,650	15	2						
Bills Receivable .. ..	3,600	6	1						
Sundry Creditors .. ..						4,500	18	4	
Bills Payable .. ..						3,500	2	11	
Plant and Machinery .. ..	2,520								
Fixtures and Fittings .. ..	760								
Stock 1st Jan., 19.. ..	3,000								
Purchases .. ..	21,151	2	6						
Sales .. ..						28,158	16	9	
Wages .. ..	2,025	6	7						
Rent, Rates, and Taxes .. ..	351	12	6						
Carriage Inwards .. ..	1,108	6	4						
Coal and Coke .. ..	250	5	4						
Carriage Outwards .. ..	350	8	11						
Outstanding Accounts .. ..						275	11	5	
Salaries .. ..	750								
Bad Debts .. ..	257	2	9						
Discounts on Purchases .. ..						469	17	8	
„ „ Sales .. ..	626	12	10						
Trade Expenses .. ..	125	4	2						
Depreciation.. ..	320								
Interest on Capital .. ..	450								
Cash in hand .. ..	24	17	5						
„ „ at Bank .. ..	5,133	6	6						
Capital Account .. ..						9,450			
Drawing Account .. ..	900								
Reserve Account .. ..						2,000			
Stock on hand, £3,500.	48,355	7	1			48,355	7	1	

JOURNAL.				Dr.		Cr.	
19..							
Dec. 31	Trading Account .. ..	27,535	0 9				
	To Stock (at start) .. ..					3,000	
	„ Purchases .. ..					21,151	2 6
	„ Wages .. ..					2,025	6 7
	„ Carriage Inwards .. ..					1,108	6 4
	„ Coal and Coke .. ..					250	5 4
	Transfer of above amounts.						
31	Sales .. ..	28,158	16 9				
	Stock (at finish) .. ..	3,500					
	To Trading Account .. ..					31,658	16 9
	Transfer of above balances.						
31	Trading Account .. ..	4,123	16				
	Discount on Purchases .. ..	469	17 8				
	To Profit and Loss Account .. ..					4,593	13 8
	Transfer of gross profit & discount.						
31	Profit and Loss Account .. ..	3,231	1 2				
	To Rent, Rates, and Taxes .. ..					351	12 6
	„ Carriage Outwards .. ..					350	8 11
	„ Salaries .. ..					750	
	„ Bad Debts .. ..					257	2 9
	„ Discounts on Sales .. ..					626	12 10
	„ Trade Expenses .. ..					125	4 2
	„ Interest on Capital .. ..					450	
	„ Depreciation .. ..					320	
	Transfer of losses.						
31	Profit and Loss Account .. ..	1,362	12 6				
	To Capital .. ..					1,362	12 6
	Transfer of net gain.						
31	Capital Account .. ..	900					
	To Drawing Account .. ..					900	
	Transfer of drawings.						

**Note 1.**—The student must remember that the rules for journalising do not apply to Closing Entries, as these are not transactions but merely transfers. The way to close an account is obviously to put the same amount there as is already there, only on the opposite side. If we put it on the same side it would simply double the amount instead of closing the account. Thus, if an account shows a *debit* balance, the way to close it will be to *credit* it with the same amount; and if it shows a *credit* balance, the way to close

it will be to *debit* it with the same amount. Now, since gains are credit balances, such accounts to be closed must be debited; hence the entry—

Goods	Dr.
To Profit and Loss	Cr.

And since losses are debit balances, such accounts, to be closed, must be credited; hence the entry—

Profit and Loss	Dr.
To Rent, Rates, etc.	Cr.

**Note 2.**—In actual practice closing entries are frequently omitted, transfers being made from the various nominal accounts direct to the Trading Account and Profit and Loss Account, and from the Profit and Loss Account and Drawing Account to the Capital Account.

**Note 3.**—The goods on hand are sometimes journalised thus—

Goods (new account)	Dr.
To Goods (old account)	Cr.

The most common practice, however, is to enter the value of the goods on hand on the credit side of the Goods or Stock Account and, after closing the account, to bring down the amount as a balance on the debit side.

**COAL AND COKE.**—This, being a manufacturing expense varying with the turnover, is properly charged to Trading Account. It is sometimes merged in the Fuel Account (which includes wood, etc.) and sometimes kept separate. At balancing time stock is taken and credited to the account. The difference between the amount purchased and the amount then on hand is considered to be the amount used, and is, therefore, the amount carried to the Trading Account. The stock on hand is brought down as a balance for the subsequent period, and is also shown as an asset in the current Balance Sheet.

**Example—**

Dr.		COAL AND COKE.				Cr.	
19..					19..		
Jan. 1	To Balance .. ..	250	12	9	Dec. 31	By Stock on hand c/	320 10 6
Dec. 31	„ Purchases .. ..	2,050	16	4	„ „	„ Balance to	2,146 3 2
„	„ Carriage on above ..	165	4	7		Trading A/c	
		2,466	13	8			2,466 13 8
19..							
Jan. 1	To Balance b/d ..	320	10	6			

**CODICIL.**—A supplement to a will, and forming part of it, generally for the purpose of making some addition or alteration to it. It must be executed with the same formalities as the will itself.

**COLLATERAL SECURITY.**—An extra, indirect or secondary security (in addition to the principal security) for the repayment of a loan or bank overdraft. A collateral security may also be one furnished by a third party, such security to be realised only in the event of the principal (*i.e.*, debtor's) security failing or proving insufficient. The term is generally applied to the deposit of such documents as give a right to property; so that the creditor, by realising same, may recover the amount of the loan without the necessity of legal proceedings. A Bill of Sale is an example of such, as it guarantees the repayment of a loan.

**COLLIERY COST SHEET.**—(See COST ACCOUNTS.)

**COLUMNAR METHOD.**—(See TABULAR SYSTEM.)

**COMMISSION.**—The remuneration charged by an agent for his services, usually a percentage on the amount of business transacted through him.

Commission is brought to account by means of Journal entry, thus—

Person	<i>Dr.</i>
To Commission	<i>Cr.</i>
(for commission receivable)	
<hr/>	
Commission	<i>Dr.</i>
To Person	<i>Cr.</i>
(for commission payable)	
<hr/>	

The commission is *debited* when it is a *loss* and *credited* when a *gain*, in accordance with the rules for journalising. It is then posted to the ledger, separate accounts being opened for "**Commission Received**" and "**Commission Paid**," in order to show the actual loss and the actual gain. These accounts are ultimately closed to Profit and Loss in the usual way.

**Bank Commission.**—A charge made by some banks to their customers for cashing cheques drawn on them. Such items are generally posted to the Bank Charges Account.

**Del Credere Commission.**—An extra commission paid to an agent who guarantees the payment for goods sold by him; in other words, to relieve his principal of the risk of a bad debt.

**Sales on Commission.**—These differ from an ordinary Consignment Inwards, inasmuch as no goods are received into stock, the sales being made from samples. The transactions



are not, therefore, recorded in the books, only the commission being booked up.

**COMMITTEE OF INSPECTION.**—A small number of creditors, not more than five and not less than three, appointed by the whole body of creditors to supervise the winding-up of a debtor's or company's affairs under the trustee-in-bankruptcy, liquidator or official receiver. When there is no committee of inspection its functions are exercised by the Board of Trade.

**COMPANY.**—A Company is an association of persons for the purpose of carrying on trade or business, generally for mutual gain. There are also other combinations, such as building and friendly societies.

**Joint Stock Company.**—"An association of individuals for purposes of profit, possessing a common capital contributed by the members composing it, such capital being commonly divided into shares, of which each possesses one or more, and which are transferable by the owner."

The formation of joint stock companies in England, for trading and other purposes, dates back for more than three centuries. We see some notable examples in the seventeenth century in the East India Company, the Hudson Bay Company, the New River Company, and the Bank of England, which were incorporated by Royal Charter or by special Act of Parliament. Incorporation otherwise than by these two methods was not possible until 1844; while the principle of "limited liability" was not recognised till 1855. The Act of 1862 opened up a new era in the history of joint stock companies. The Companies Acts, 1862-1907, have now been superseded by the Companies (Consolidation) Act, 1908, which came into force on the 1st April, 1909. This Act, however, made no material changes, but merely consolidated the previous sixteen statutes. Since 1908, several additional Acts have been passed, and the whole are now known as the Companies Acts, 1908 to 1917.

**Prohibition of Large Partnerships.**—Companies not incorporated are, in the eyes of the law, nothing more than private partnerships. No partnership consisting of more than ten persons can be formed to carry on the business of banking, and no partnership consisting of more than twenty persons can be formed for the purpose of carrying on any other business which has for its object the acquisition of gain, without being registered as a Company.

**Difference between a Joint Stock Company and an Ordinary (Unlimited) Partnership.**—(1) The individuality of the members who form a company is entirely lost in the personality of the company itself, which is regarded in law as a separate and distinct entity. Thus, a member of a company may enter into contracts with the company itself in the same manner as any other individual.

(2) In a company, the creditors can only proceed against the property of the company in case of necessity, and ordinarily there is no remedy beyond the amount of the fixed capital, which is, in fact, the total amount of the property of the legal person. In a partnership, the creditors may not only proceed against the property of the partnership, but also against the private property of each individual partner.

(3) In a public company, shares may be transferred without the consent of the company, and without affecting its existence; this is not possible in a partnership.

(4) In the case of a limited company, the liability of each shareholder is limited to the amount unpaid on the shares which he holds; in a partnership, the members are liable jointly and severally for the whole of the debts of the firm.

(5) In a partnership, the number of members must not exceed twenty, and in the case of a banking company, ten. In a limited company there is no such limit, except that there must not be less than seven persons in a public company, nor less than two in a private one.

(6) In a partnership, each partner can take part in the management, and his actions are legally binding on the firm; but in a company, the rights of management are restricted to a special body of shareholders called directors.

(7) In a partnership, the rights of the members are regulated by the Deed of Partnership, and may be altered by mutual agreement. In a limited company, the powers of the company are governed by the Memorandum of Association, which cannot be altered except by consent of the Court; and the powers of the directors are regulated by the Articles, which can only be altered by special resolution of the shareholders.

(8) The law prescribes an annual audit for a limited company, but not for a partnership.

(9) The capital of a private firm may be increased by additions and by profits, or decreased by withdrawals and losses,

or altered by mutual agreement. The capital of a company is fixed by the Memorandum, is unaffected by trading profits or losses, and can only be increased or decreased in a special statutory manner.

**Mode of Forming a Company.**—Any seven or more persons (or, where the company to be formed will be a private one within the meaning of the Act, any two or more persons) associated for any lawful purpose may, by subscribing their names to a Memorandum of Association, and otherwise complying with the requirements of the Act in respect of registration, form an incorporated company.

**Kinds of Companies.**—There are three kinds of companies which may be constituted and incorporated under the Companies Acts—

(1) **Company Limited by Shares.**—This is a company having the liability of its members limited by the Memorandum to the amount, if any, unpaid on the shares respectively held by them. Once the capital is fully paid up, there is no further liability resting on the shareholder. This class is sub-divided into public and private companies.

(2) **Company Limited by Guarantee.**—This is a company having the liability of its members limited by the Memorandum to such amount as the members may respectively thereby undertake to contribute to the assets of the company in the event of its being wound up. There are only a few companies of this class in existence.

(3) **Unlimited Company.**—This is a company not having any limit on the liability of its members. Every shareholder is thus liable for the debts of the company as in an ordinary partnership. It possesses, however, two advantages: (a) The liability of each member ceases at the end of a year from the time he ceases to be a member; (b) the shares of the company are transferable. Such companies are now extremely rare.

**Number of Persons.**—The legal minimum number of persons that can form a public joint stock company is seven, and a private company, two. The maximum number for a private company is fifty, and for a public company the maximum can never exceed the number of shares, as each member must, by law, take not less than one share. If a company carries on business for more than six months after the number of its members has been reduced below seven, or two, as the case may be, every member cognisant of the

fact is personally liable for the whole of the debts of the company contracted during that time.

**Public Company.**—A public joint stock company is one which offers its shares to the public for subscription.

**One Man Company.**—This is a term applied to a company in which almost the whole of the shares are held by one person, the remainder being allotted to six other persons in order to make up the statutory number.

**Private Company.**—By Section 121 of the Companies Act, 1908, as amended by the Companies Act, 1913, a private joint stock company is one which by its articles—

- (1) Restricts the right to transfer its shares;
- (2) Limits the number of its members (exclusive of persons who are in the employment of the company and of persons who having been formerly in the employment of the company, were, while in such employment, and have continued after the determination of such employment, to be members of the company) to fifty;
- (3) Prohibits any invitation to the public to subscribe for any shares or debentures of the company.

The Act of 1913 further states that if a private company makes default in complying with any of the provisions of Section 121 of the 1908 Act, the company shall cease to be entitled to the privileges conferred on a private company, unless the court is satisfied that the failure to comply with the conditions was accidental, or due to inadvertence or some other sufficient cause. With the annual list and summary, a private company must send to the Registrar a certificate, signed by a director or the secretary, that the company has not, since the date of the last return, issued any invitation to the public to subscribe for any shares or debentures of the company; and where the list of members exceeds fifty, also a certificate so signed that such excess consists wholly of persons who are to be excluded in reckoning the number of fifty.

**Advantages of a Private Company—**

- (1) The minimum number of members may be two instead of seven. (Section 2.)
- (2) It is not obliged to file a statement in lieu of prospectus. (Section 82.)
- (3) The restrictions put upon the commencement of business do not apply. (Section 87.)

- (4) It is not required to file with the annual summary the prescribed financial statement in the form of a balance sheet. (Section 26.)
- (5) The restrictions placed on the allotment of shares (Section 85), and on the appointment of directors (Section 72), do not apply.
- (6) It is not obliged to forward to the members, or to file with the registrar of companies, the statutory report. (Section 65.)
- (7) Holders of preference shares and debentures in a private company have not the right of those in a public company to receive and inspect the balance sheets and the auditors' reports. (Section 114.)

**Memorandum of a Company Limited by Shares.**—The memorandum must state—

- (1) The name of the company, with "Limited" as the last word in its name.
- (2) The part of the United Kingdom, whether England, Scotland, or Ireland, in which the registered office of the company is to be situate.
- (3) The objects of the company.
- (4) That the liability of the members is limited.
- (5) The amount of the share capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount.

No subscriber of the memorandum may take less than one share, and each subscriber must write opposite to his name the number of shares he takes.

**Memorandum of a Company Limited by Guarantee.** The memorandum must state—

- (1) The name of the company, with "Limited" as the last word in its name.
- (2) The part of the United Kingdom, whether England, Scotland, or Ireland, in which the registered office of the company is to be situate.
- (3) The objects of the company.
- (4) That the liability of the members is limited.
- (5) That each member undertakes to contribute to the assets of the company in the event of its being wound up while he is a member, or within one year afterwards, for payment of the debts and liabilities of the company contracted before he ceases to be a member, and of the costs, charges and expenses of winding up, and for adjustment of the rights



of the contributories among themselves, such amount as may be required, not exceeding a specified amount.

If the company has a share capital—

(1) The memorandum must also state the amount of share capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount.

(2) No subscriber of the memorandum may take less than one share.

(3) Each subscriber must write opposite to his name the number of shares he takes.

**Memorandum of an Unlimited Company.**—The memorandum must state—

(1) The name of the company.

(2) The part of the United Kingdom, whether England, Scotland, or Ireland, in which the registered office of the company is to be situate.

(3) The objects of the company.

If the company has a share capital—

(1) No subscriber of the memorandum may take less than one share.

(2) Each subscriber must write opposite to his name the number of shares he takes.

**Name of Company.**—A company may not be registered by a name identical with that by which a company in existence is already registered, or so nearly resembling that name as to be calculated to deceive, except where the company in existence is in the course of being dissolved and signifies its consent in such manner as the registrar requires. If, however, this should happen, through inadvertence or otherwise, the first-mentioned company may, with the consent of the registrar, change its name.

The prefix “Royal” or similar word may not be used without the written consent of the Home Secretary.

Any company may, by special resolution and with the approval of the Board of Trade signified in writing, change its name. The registrar will enter the new name on the register in place of the former name, and issue a certificate of incorporation altered to meet the circumstances.

**Omission of “Limited” from Name of Company.**—Where it is proved to the satisfaction of the Board of Trade that an association about to be formed as a limited company is to be formed for promoting commerce, art, science, religion, charity, or any other useful object, and intends to apply its



profits (if any) or other income in promoting its objects, and to prohibit the payment of any dividend to its members, the Board of Trade may by licence direct that the association be registered as a company with limited liability, without the addition of the word "Limited" to its name. This licence may be granted on such conditions and subject to such regulations as the Board of Trade thinks fit, and may also be revoked by the Board of Trade.

**Objects of Company.**—The objects of a company must be set forth with accuracy, as a company only exists for the purposes which are stated in its Memorandum of Association. Any act exceeding these powers is *ultra vires*, and, therefore, null and void.

A company may, by special resolution, alter the provisions of its Memorandum with respect to the objects of the company, so far as may be required to enable it—

(1) To carry on its business more economically or efficiently; or

(2) To attain its main purpose by new or improved means; or

(3) To enlarge or change the local area of its operations; or

(4) To carry on some business which under existing circumstances may conveniently or advantageously be combined with the business of the company; or

(5) To restrict or abandon any of the objects specified in the Memorandum.

The alteration, however, does not take effect until it has been confirmed wholly or in part by the Court, who will require it to be shown that the alteration is for the benefit of the company, and that the interests of all existing members and creditors are properly safeguarded. A printed copy of the Memorandum, as altered, must then be forwarded to the registrar of companies for him to register and certify.

**Articles of Association.**—Companies which are limited by guarantee, and unlimited companies, must register articles of association along with the memorandum. But a company limited by shares may either register special articles or adopt **Table A**. An article is null and void in so far as it conflicts with the Memorandum of Association or with statute law. Any special resolution altering the articles must be printed and forwarded to the registrar of companies to record within fifteen days of its confirmation. Such special resolution must

also be embodied in or annexed to every copy of the articles issued subsequently. (See also ARTICLES.)

**Registration of Memorandum and Articles.**—The memorandum and the articles (if any) must each bear a 10s. deed stamp, and must be signed by each subscriber in the presence of at least one witness, who must attest the signature. They must then be forwarded to the registrar of companies for that part of the United Kingdom in which the registered office is stated by the memorandum to be situate; and he will retain and register them. Every company must send to each member, at his request, and on payment of 1s. or such less sum as the company may prescribe, a copy of the memorandum and of the articles (if any) under penalty of a fine not exceeding £1.

**Registration Fees.**—In addition to the deed stamp of 10s., registration stamps are necessary, in the case of a company having a share capital, according to the following scale—

	£	s.	d.
Where the nominal share capital does not exceed £2,000	2	0	0
Where the nominal share capital exceeds £2,000, the following fees according to the amount of nominal share capital—			
For every £1,000 or part of £1,000 up to £5,000 ..	1	0	0
For every £1,000 or part of £1,000 after the first £5,000 up to £100,000 .. .. .	0	5	0
For every £1,000 or part of £1,000 after the first £100,000 .. .. .	0	1	0
For any increase of share capital after the first registration, the same fees per £1,000 or part of £1,000 as would have been payable if the increased share capital had formed part of the original share capital.			
No company to pay in respect of nominal share capital, on registration or afterwards, any greater amount of fees than .. .. .	50	0	0
For registering any document required or authorised by the Act to be registered .. .. .	0	5	0
For making a record of any fact required or authorised by the Act to be recorded by the registrar ..	0	5	0

There is also a Capital duty of 5s. per cent. imposed by the Finance Act, 1899.

The fees payable on the first registration are generally included in the item "**Preliminary Expenses**," to which the student should refer for information as to their treatment.

**Certificate of Incorporation.**—On the registration of the memorandum of a company, the registrar certifies under his

hand that the company is incorporated, and, in the case of a limited company, that the company is limited. From the date of incorporation mentioned in the certificate of incorporation, the subscribers of the memorandum, together with such other persons as may from time to time become members of the company, form a body corporate by the name contained in the memorandum, capable forthwith of exercising all the functions of an incorporated company, and having perpetual succession and a common seal, with power to hold lands, and with such liability on the part of the members to contribute to the assets of the company, in the event of its being wound up, as is mentioned in the Act.

The certificate of incorporation given by the registrar in respect of any association is conclusive evidence that all the requirements of the Act in respect of registration, and of all matters precedent and incidental thereto, have been complied with, and that the association is a company authorised to be registered and duly registered under the Act. If the company is a private one, it is at liberty to commence business forthwith; but a public company cannot proceed further than the issue of its prospectus inviting the public to apply for its shares.

**Prospectus.**—This is a document issued by public companies inviting the public to subscribe or purchase shares or debentures of the company. At the foot of the prospectus there is generally an **application form** to be filled up by persons wishing to obtain shares. Every prospectus issued by or on behalf of a company, or in relation to any intended company, must be dated, and such date will, unless the contrary be proved, be taken as the date of publication of the prospectus. A copy of every such prospectus, signed by every person who is named therein as a director or proposed director of the company, or by his agent authorised in writing, must be filed for registration with the registrar of joint stock companies on or before the date of its publication, and no such prospectus must be issued until a copy of it has been so filed for registration. Every prospectus must state on the face of it that a copy has been filed for registration. (See also under PROSPECTUS.)

**Statement in Lieu of Prospectus.**—A company which does not issue a prospectus on or with reference to its formation, must not allot any of its shares or debentures unless before the first allotment of either shares or debentures there has

been filed with the registrar of companies a "Statement in Lieu of Prospectus," signed by every person who is named therein as a director or proposed director of the company, or by his agent authorised in writing, in the form and containing the particulars set out in the second schedule of the Act. This does not apply to a *private* company. A company must not previously to the statutory meeting vary the terms of a contract referred to in the prospectus or statement in lieu of prospectus, except subject to the approval of the statutory meeting. (See also under STATEMENT.)

**Directors and Restrictions on their Appointment.**—The directors of a company are those persons who are elected by the shareholders to conduct and manage its business. Collectively they form the Board of Directors, and their powers are conferred, defined, and regulated by the Memorandum and Articles of Association. By Section 72, no person is capable of being appointed a director of a company by the Articles, or named as a director or proposed director of a company in any prospectus issued by or on behalf of the company, or in any statement in lieu of prospectus filed by or on behalf of a company, unless he has previously by himself or by his agent authorised in writing—

(1) Signed and filed with the registrar of companies a consent in writing to act as such director; and

(2) Either signed the Memorandum for a number of shares not less than his qualification (if any), or signed and filed with the registrar a contract in writing to take from the company and pay for his qualification shares (if any).

On the application for registration of the memorandum and articles of a company, the applicant must deliver to the registrar a list of the persons who have consented to be directors of the company. This section does not apply to a *private* company. A director must obtain his qualification shares within two months (or such shorter term as the articles may fix) of his appointment, or vacate the office. The acts of a director or manager are valid, notwithstanding any defect afterwards discovered in his appointment or qualification.

**Allotment of Shares and Restrictions on Allotment.**—Allotment signifies the distributing of the shares in response to the applications made for them, or in pursuance of contracts agreeing to take them. A **Letter of Allotment** is sent to each allottee informing him of the numbers of the shares allotted

to him. The letter requires a 1d. stamp when the amount is less than £5, while for larger amounts the duty is 6d. An application for shares is an offer to contract, and the posting of the Letter of Allotment is an acceptance of such offer.

Section 85 of the Act provides—

(1) No allotment must be made of any share capital offered to the public for subscription, unless the following conditions have been complied with, namely—

(a) The amount (if any) fixed by the memorandum or articles and named in the prospectus as the minimum subscription upon which the directors may proceed to allotment; or

(b) If no amount is so fixed and named, then the whole amount of the share capital so offered for subscription, has been subscribed, and the sum payable on application for the amount so fixed and named, or for the whole amount offered for subscription, has been paid to and received by the company.

(2) The amount so fixed and named and the whole amount aforesaid must be reckoned exclusively of any amount payable otherwise than in cash, and is in the Act referred to as the “**minimum subscription.**”

(3) The amount payable on application on each share must not be less than 5 per cent. of the nominal amount of the share.

(4) If the conditions aforesaid have not been complied with on the expiration of forty days after the first issue of the prospectus, all money received from applicants for shares must be forthwith repaid to them.

(5) Any condition requiring or binding an applicant to waive compliance with any requirement of this section is void.

(6) This section, except Sub-section 3, does not apply to any allotment of shares subsequent to the first allotment of shares offered to the public for subscription.

(7) In the case of the first allotment of share capital payable in cash of a company which does not issue any invitation to the public to subscribe for its shares, no allotment must be made unless the **minimum subscription** (that is to say)—

(a) The amount (if any) fixed by the memorandum or articles and named in the statement in lieu of prospectus as the minimum subscription upon which the directors may proceed to allotment; or

(b) If no amount is so fixed and named, then the whole



amount of the share capital other than that issued or agreed to be issued as fully or partly paid up otherwise than in cash,

has been subscribed and an amount not less than 5 per cent. of the nominal amount of each share payable in cash has been paid to and received by the company. This sub-section does not apply to a *private* company.

**Restrictions on Commencement of Business.**—By Section 87, a company must not commence any business or exercise any borrowing powers unless—

(a) Shares held subject to the payment of the whole amount thereof in cash have been allotted to an amount not less in the whole than the minimum subscription ; and

(b) Every director of the company has paid to the company on each of the shares taken or contracted to be taken by him, and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription, or in the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, on the shares payable in cash ; and

(c) There has been filed with the registrar of companies a statutory declaration by the secretary or one of the directors, in the prescribed form, that the aforesaid conditions have been complied with ; and

(d) In the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, there has been filed with the registrar of companies a statement in lieu of prospectus.

On the filing of the statutory declaration, and the statement in lieu of prospectus where necessary, the registrar of companies issues a certificate that the Company is entitled to commence business. This section does not apply to a *private* company.

**Return as to Allotments.**—By Section 88, whenever a company limited by shares makes any allotment of its shares, the company must within one month thereafter file with the registrar of companies—

(a) A return of the allotments, stating the number and nominal amount of the shares comprised in the allotment, the names, addresses, and descriptions of the allottees, and the amount (if any) paid or due and payable on each share ; and



(b) In the case of shares allotted as fully or partly paid up otherwise than in cash, a contract in writing constituting the title of the allottee to the allotment together with any contract of sale, or for services or other consideration in respect of which that allotment was made, such contracts being duly stamped, and a return stating the number and nominal amount of shares so allotted, the extent to which they are to be treated as paid up, and the consideration for which they have been allotted.

**Certificates of Shares or Stock.**—Every company must, within two months after the allotment of any of its shares, debentures, or debenture stock, and within two months after the registration of the transfer of any such shares, debentures, or debenture stock, complete and have ready for delivery the certificates of all shares, the debentures, and the certificates of all debenture stock allotted or transferred, unless the conditions of issue of the shares, debentures, or debenture stock otherwise provide. A certificate, under the common seal of the company, specifying any shares or stock held by any member is *prima facie* evidence of the title of the member to the shares or stock. The certificates are issued in exchange for the allotment letters and the bankers' receipts for money paid on application and allotment.

**Nature of Shares and of Money Due on Them.**—The shares or other interest of any member in a company are personal estate, transferable in the manner provided by the articles of the company. Each share in a company having a share capital must be distinguished by its appropriate number. A company cannot purchase its own shares. Any money due from a member to the company in respect of his shares is of the nature of a specialty debt, that is, recoverable any time within twenty years.

**Transfer of Shares.**—Unless the articles restrict or forbid it, shares are transferable either by deed or by an instrument in writing signed by the transferor and the transferee, and such transfer must be sent to the company's office for registration. The transferee then has the right to have his name entered on the register of members as the holder of the shares. Any transfer of the shares of a deceased member by his personal representative—executor or administrator—or by the trustee in bankruptcy is valid. Companies generally charge a fee of 2s. 6d. for registering transfers. These fees are posted to a separate account under the heading of "Transfer Fees,"

and treated as a profit in the company's annual accounts. When partly paid shares are transferred, the transferor is still liable for the amount due on them within a period of one year from the time at which he ceased to be a member ; that is, if the transferee fails to pay the amount.

**Unlimited Liability of Directors.**—In a limited company the liability of the directors or managers, or of the managing director, may, if so provided by the memorandum, be unlimited. A limited company, if so authorised by its Articles, may, by special resolution, alter its memorandum so as to render unlimited the liability of its directors, or managers, or of any managing director. A copy of the resolution must be embodied in or annexed to every copy of the memorandum issued subsequently.

**Office, Seal, and Name of Company.**—Every company must have a **registered office** to which all communications and notices may be addressed. Notice of the situation of the registered office, and of any change therein, must be given to the registrar of companies.

Every company must also possess a **common seal**, which must be used for the authentication of all important documents.

By Section 63 of the Act, every Limited Company must—

- (a) Paint or affix, and keep painted or affixed, its **name** on the outside of every office or place in which its business is carried on, in a conspicuous position, in letters easily legible ;
- (b) Have its name engraved in legible characters on its seal ;
- (c) Have its name mentioned in legible characters in all notices, advertisements, and other official publications of the company, and in all bills of exchange, promissory notes, indorsements, cheques, and orders for money or goods purporting to be signed by or on behalf of the Company, and in all bills of parcels, invoices, receipts, and letters of credit of the Company.

**Meetings—Annual General Meeting.**—A general meeting of every company must be held once at least in every calendar year, and not more than fifteen months after the holding of the last preceding general meeting. If default is made in holding such a meeting, the Court may, on the application of any member, call or direct the calling of a general meeting of the company.

**Statutory Meeting and Statutory Report.**—By Section 65 of the Act, every company limited by shares and registered on or after the 1st day of January, 1901, must, within a period of not less than one month nor more than three months from the date at which the company is entitled to commence business, hold a general meeting of the members of the company which is to be called the Statutory Meeting. The directors must, at least seven days before the day on which the meeting is held, forward a report (in the Act called the **Statutory Report**) to every member of the Company and to every other person entitled under the Act to receive it. The Statutory Report must be certified by not less than two directors of the company, or where there are less than two directors, by the sole director and manager, and must state—

(a) The total number of shares allotted, distinguishing shares allotted as fully or partly paid otherwise than in cash, and state in the case of shares partly paid up the extent to which they are so paid up, and in either case the consideration for which they have been allotted ;

(b) The total amount of cash received by the company in respect of all the shares allotted, distinguishing as aforesaid ;

(c) An abstract of the receipts of the company on account of its capital, whether from shares or debentures, and of the payments made thereout, up to a date within seven days of the date of the Report, exhibiting under distinctive headings the receipts of the company from shares and debentures and other sources, the payments made thereout, and particulars concerning the balance remaining in hand, and an account or estimate of the preliminary expenses of the company ;

(d) The names, addresses, and descriptions of the directors, auditors (if any), managers (if any), and secretary of the company ; and

(e) Particulars of any contract, the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification or proposed modification.

A copy of the Statutory Report must be filed with the registrar of companies. The provisions as to the forwarding and filing of the Statutory Report do not apply to a *private* company.

**Extraordinary General Meeting.**—Notwithstanding anything in the articles of a company, the directors of a company must, on the requisition of the holders of not less

than one-tenth of the issued share capital of the company upon which all calls or other sums then due have been paid, forthwith proceed to convene an extraordinary general meeting of the company. If the directors do not within twenty-one days proceed to do this, the requisitionists, or a majority of them in value, may themselves convene the meeting.

**Provisions as to Meetings and Votes.**—In default of, and subject to, any regulations in the articles—

(1) A meeting of a company may be called by seven days' notice in writing, served on every member in the manner in which notices are required to be served by Table A.

(2) Five members may call a meeting.

(3) Any person elected by the members present at a meeting may be chairman thereof.

(4) Every member shall have one vote.

**Resolutions.**—An **Ordinary Resolution** is one that is decided by a bare majority of the members. An **Extraordinary Resolution** is one that has been passed by a majority of not less than three-fourths of such members entitled to vote as are present in person or by proxy (where proxies are allowed) at a general meeting of which notice specifying the intention to propose the resolution as an extraordinary resolution has been duly given. A **Proxy** is a written nomination of a person to vote on behalf of an absent member. A **Special Resolution** is one that has been—

(a) Passed in the manner required for the passing of an extraordinary resolution; and

(b) Confirmed by a majority of such members entitled to vote as are present in person or by proxy (where proxies are allowed) at a subsequent general meeting, of which notice has been duly given, and held after an interval of not less than fourteen days, nor more than one month, from the date of the first meeting.

A declaration of the chairman that the resolution is carried is, unless a poll is demanded, conclusive evidence of the fact. A poll may be demanded by three to five persons (according to the articles). In computing the majority on the poll, reference must be had to the number of votes to which each member is entitled by the articles.

**Registration of Resolutions.**—A copy of every special and extraordinary resolution must within fifteen days of the confirmation of the special resolution, or from the passing of

the extraordinary resolution, as the case may be, be printed and forwarded to the registrar of companies to record the same. Where articles have been registered, a copy of every special resolution for the time being in force must be embodied in or annexed to every copy of the articles issued after the confirmation of the resolution. Where articles have not been registered, a copy of every special resolution must be forwarded in print to any member at his request, on payment of a fee not exceeding 1s.

**Different Amounts Payable on Shares.**—A company, if so authorised by its articles, may—

(1) Make arrangements on the issue of shares for a difference between the shareholders in the amounts and times of payment of calls on their shares ;

(2) Accept from any member who assents thereto the whole or a part of the amount remaining unpaid on any shares held by him, although no part of that amount has been called up ;

(3) Pay dividend in proportion to the amount paid up on each share where a larger amount is paid up on some shares than on others.

**Alteration of Share Capital.**—A company limited by shares, if so authorised by its articles, may alter the conditions of its Memorandum, that is to say, it may—

(a) Increase its share capital by the issue of new shares of such amount as it thinks expedient ;

(b) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares ;

(c) Convert all or any of its paid-up shares into stock, and re-convert that stock into paid-up shares of any denomination ;

(d) By special resolution, subdivide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum, so, however, that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived ;

(e) Cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

Every copy of the memorandum issued subsequently must be in accordance with the alteration. Notice of any such



increase, consolidation, division, conversion, or re-conversion must be given to the registrar of companies.

**Reorganisation of Share Capital.**—A company limited by shares may, by special resolution confirmed by an order of the Court, modify the conditions contained in its memorandum so as to reorganise its share capital, whether by the consolidation of shares of different classes or by the division of its shares into shares of different classes. An office copy of any such order must be filed with the registrar of companies before the resolution can take effect.

**Reduction of Share Capital.**—(See under REDUCTION.)

**Reserve Liability of Limited Company.**—A limited company may by special resolution determine that any portion of its share capital which has not already been called up shall not be capable of being called up, except in the event and for the purposes of the company being wound up. The object of this is to increase the financial stability of the company by having large capital reserves.

**Mortgages, Charges, etc.**—By Section 93 of the Act, every mortgage or charge created after the first day of July, 1908, by a company registered in England or Ireland and being either—

- (a) A mortgage or charge for the purpose of securing any issue of debentures ; or
- (b) A mortgage or charge on uncalled share capital of the company ; or
- (c) A mortgage or charge created or evidenced by an instrument which, if executed by an individual, would require registration as a bill of sale ; or
- (d) A mortgage or charge on any land, wherever situate, or any interest therein ; or
- (e) A mortgage or charge on any book debts of the company ; or
- (f) A floating charge on the undertaking or property of the company,

shall, so far as any security on the company's property is thereby conferred, be void against the liquidator and any creditor of the company, unless the prescribed particulars of the mortgage or charge, together with the instrument (if any) by which the mortgage or charge is created or evidenced, are delivered to or received by the registrar of companies for registration in the manner required by the Act within twenty-one days after the date of its creation.



The registrar shall keep, with respect to each company, a register in the prescribed form of all the mortgages and charges created by the company after the first day of July, 1908, and requiring registration under this section, and shall, on payment of the prescribed fee, enter in the register with respect to every such mortgage or charge, the date of creation, the amount secured by it, short particulars of the property mortgaged or charged, and the names of the mortgagees or persons entitled to the charge. The register shall be open to inspection by any person on payment of a fee not exceeding 1s. for each inspection.

The registrar shall give a certificate under his hand of the registration of any mortgage or charge registered in pursuance of this section, stating the amount thereby secured. The company shall cause a copy of every certificate of registration to be endorsed on every debenture or certificate of debenture stock which is issued by the company, and the payment of which is secured by the mortgage or charge so registered.

It shall be the duty of the company to send to the registrar for registration the particulars of every mortgage or charge created by the company, and of the issues of debentures of a series, requiring registration under this section. Every company must keep a copy of every such instrument, and a copy of one such debenture, at its registered office.

**Perpetual Debentures.**—A condition contained in any debentures, or in any deed for securing any debentures, is not invalid by reason only that thereby the debentures are made irredeemable or redeemable only on the happening of a contingency, however remote, or on the expiration of a period, however long.

**Power to Re-issue Redeemed Debentures.**—Where a company has redeemed any debentures previously issued, the company, unless the articles or conditions of issue expressly otherwise forbid, has power to keep the debentures alive for the purposes of re-issue, and may either re-issue the same debentures or issue others in their place. Where a company has deposited any of its debentures to secure advances from time to time on current account or otherwise, the debentures are not deemed to have been redeemed by reason only of the account of the company having ceased to be in debit whilst the debentures remained so deposited.

**Trust Deed.**—The property of the company comprised in

the charge is frequently conveyed by way of mortgage to a trustee or trustees for the debenture holders. Such an instrument is called a "trust deed," and reference to such trust deed and conditions is made on every debenture covered by it.

**Floating Charge.**—If the property mortgaged consists of assets other than freeholds and leaseholds, such as stock, book debts, etc., it is usual to make it subject to what is called a "floating charge." This enables the company to deal with its movable property in the ordinary course of business, which it could not otherwise do. A floating charge attaches to the assets in the varying condition they may happen to be from time to time, and remains dormant all the while the company is a going concern, or until after default in payment of interest.

**Rights of a Debenture Holder.**—A debenture holder who has a charge upon the company's property may—

- (1) Sue for repayment of the principal and any interest which is owing;
- (2) Present a winding-up petition against the company;
- (3) Prove for the debt in the winding-up;
- (4) Appoint a receiver.

The last right is the one most frequently exercised; for a company may be only temporarily embarrassed, and a little careful management may lift it out of its difficulties.

**Underwriting, Commissions, and Discounts.**—Underwriting is a kind of insurance against the risk that shares or debentures offered to the public for subscription may not be taken up, the underwriters guaranteeing to take up those shares or debentures for which the public fail to subscribe. In return for this they are paid a commission either in cash or fully-paid shares. An agreement to *place* shares, however, is not an underwriting agreement. By Section 89 of the Act, it is lawful for a company to pay a commission to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares in the company, or procuring or agreeing to procure subscriptions, whether absolutely or conditionally, for any shares in the company, if the payment of the commission is authorised by the articles, and the commission paid or agreed to be paid does not exceed the amount or rate so authorised, and if the amount or rate per cent. of the commission paid or agreed to be paid is—

(a) In the case of shares offered to the public for subscription, disclosed in the prospectus ; or

(b) In the case of shares not offered to the public for subscription, disclosed in the statement in lieu of prospectus, or in a statement in the prescribed form signed in like manner as a statement in lieu of prospectus and filed with the registrar of companies, and, where a circular or notice, not being a prospectus, inviting subscription for the shares is issued, also disclosed in that circular or notice.

Where a company has paid any sums by way of commission in respect of any shares or debentures, or allowed any sums by way of discount in respect of any debentures, the total amount so paid or allowed, or so much thereof as has not been written off, must be stated in every balance sheet of the company until the whole amount has been written off.

**Payment of Interest out of Capital.**—(See under INTEREST.)

**Audit and Auditors' Reports.**—Every company must have an annual audit, and the auditors must make a report to the shareholders on the accounts and on the balance sheet, and the report and balance sheet must be laid before the company in general meeting. Any shareholder is entitled to be furnished with a copy of the balance sheet and auditors' report at a charge not exceeding 6d. for every hundred words. By Section 114 of the Act, holders of preference shares and debentures of a company have the same right to receive and inspect the balance sheets of the company and the reports of the auditors and other reports as is possessed by the holders of ordinary shares in the company. This Section does not apply to a *private* company. (See also under AUDIT.)

**Companies Established Outside the United Kingdom.**—Every company incorporated outside the United Kingdom which establishes a place of business within the United Kingdom must within one month from the establishment of the place of business file with the registrar of companies—

- (a) A certified copy of the charter, statutes, or memorandum and articles of the company, or other instrument constituting or defining the constitution of the company, and, if the instrument is not written in the English language, a certified translation thereof ;
- (b) A list of the directors of the company ;
- (c) The names and addresses of some one or more persons resident in the United Kingdom authorised to accept

on behalf of the company service of process and any notices required to be served on the company ; and in the event of any alteration being made in any such instrument or in the directors or in the names or addresses of any such persons as authorised, the company must within the prescribed time file with the registrar a notice of the alteration. Every such company must file with the registrar each year the prescribed statement in the form of a balance sheet.

**Winding-up of a Company.**—(See under WINDING-UP.)

**Share Capital.**—Capital is the money subscribed by the shareholders for the purposes of the company.

**Nominal Capital** is the amount stated in the memorandum of association. The capital possessed by a company may be only a portion of its capital, not necessarily the whole of it. The full amount of the company's capital exists very often only in **name**, hence the use of the term to indicate such capital.

**Authorised Capital** is the amount stated in the memorandum of association. The memorandum is looked upon as the charter which **authorises** the existence and acts of the company, hence the application of the word to its capital.

**Registered Capital** is the amount stated in the memorandum of association. This memorandum has to be **registered** by the registrar of joint stock companies, and this fact accounts for the use of the term with reference to the company's capital.

**Issued and Subscribed Capital.**—**Issued Capital** is the capital represented by the number of shares that have been issued to the public for cash, and to the vendors as fully or partly paid. A company frequently **issues** only a part of its shares, hence the use of the term Issued Capital to denote the part so issued. Each person, however, who applies for shares must **subscribe** (sign his name to) a form promising to pay the full value of the shares issued to him, hence the use of the term **Subscribed Capital** to denote that portion of the Issued Capital which is payable in cash.

**Called-up Capital** is the amount of money called up on the shares actually subscribed. A company does not necessarily require the full amount at once on the shares it has issued, and, therefore, **calls up** only such as it needs ; hence the use of the term.

**Paid-up Capital** is the amount of the called-up capital that has actually been **paid up** by the shareholders, some of whom

sometimes fail to pay the sums due from them when a call is made, the amounts thus owing being known as Calls in Arrear or Calls Unpaid. It also includes the amount of the shares issued as fully or partly paid to the vendor and others.

**Uncalled Capital** is the amount of the capital remaining uncalled on the shares actually issued to the public and to the vendors and others.

**Reserve Capital** is the amount of the authorised capital which has not been issued. It thus acts as a **reserve**, hence the use of the term.

**Example.**—A Company was formed with a capital of £200,000, in shares of £1 each, and duly incorporated. It issued to the vendors 30,000 shares of £1 each as fully paid, in part payment of the purchase consideration. It also offered to the public 100,000 shares, payable 2s. 6d. per share on application, 2s. 6d. per share on allotment, 5s. per share one month later, and the balance as and when required. All the money was duly received with the exception of the call of 5s. on 200 shares.

In this case the capital would be termed as under—

						£
Nominal Capital	}	..	..	..	..	200,000
Authorised Capital						
Registered Capital						
Issued Capital	..	..	..	..	..	130,000
Subscribed Capital	..	..	..	..	..	100,000
Called-up Capital	..	..	..	..	..	50,000
Paid-up Capital	..	..	..	..	..	49,950
Uncalled Capital	..	..	..	..	..	50,000
Reserve Capital	..	..	..	..	..	70,000

**Classes of Shares.**—A share is the individual portion of the joint stock company's capital owned by a shareholder. Shares are divided into different classes according to their respective rights.

**Ordinary Shares** are those which have no special or particular rights, but merely the ordinary right of every shareholder, as such, to participate in the profits.

**Preferred Ordinary Shares** are those which have a right to a fixed dividend after the payment of dividend to the preference shareholders.

**Deferred Ordinary Shares** are those which rank for dividend after the preferred ordinary shares, and which are often entitled to a substantial portion of the profits then remaining.

**Preference Shares** are those which have a prior claim on



any profits available for dividend. They *may* also have a prior claim to repayment of capital in the event of a winding-up. The preference dividend, however, is only payable in any year provided there are sufficient profits available to pay it; otherwise it is lost for good.

**Cumulative Preference Shares** are those on which the fixed dividend accumulates until it is all paid, the arrears of any one year being carried forward as a charge upon the subsequent year's profits. There is, however, no obligation to pay until there are sufficient profits available. The arrears are, therefore, shown on the balance sheet as a *contingent* liability only. Unless the articles expressly stipulate otherwise, Preference Shares are always cumulative.

**Deferred, Founders, or Management Shares.**—These are shares which have to wait for their dividend until all other classes of shares have participated in the profits. They are often taken by the founders or promoters of the company, and sometimes by the vendors. They are generally entitled to the whole or a very large portion of the surplus profits after payment of all prior claims.

**Difference between Shares and Stock.**—Shares are transferable only in their entirety. In order to make them transferable in smaller amounts, they are frequently converted into stock. Stock is transferable in fractional parts of a pound. Shares may be only partly paid, but stock must always be fully paid.

**Debentures** are loans to limited companies bearing a fixed rate of interest, the principal being either repayable after a certain number of years, or irredeemable during the existence of the company. Irredeemable debentures are mostly issued in the case of railway and other big companies.

**Simple or Naked Debentures** are those where no security is given for payment of interest or repayment of principal.

**Mortgage Debentures** are those which are secured on the company's property, giving a charge either upon the whole or a portion of the assets.

**Floating Debentures** are those which are secured by a floating charge on the company's property.

Debentures are also classified as—

(1) **Debentures to Bearer**, that is, debentures payable to bearer, with or without power for the bearer to have them placed on a register or to have them at any time withdrawn from it. These are transferable by simple delivery.



(2) **Registered Debentures**, that is, debentures payable to a registered holder, with or without interest coupons payable to bearer. Any transfer of these must be registered with the company.

**Difference between Debentures and Debenture Stock.**—Debenture Stock is borrowed moneys consolidated into one sum for the sake of convenience. Debentures need not be fully paid; debenture stock must always be fully paid. Debenture bonds are transferable only in their entirety; debenture stock is transferable in multiples of a pound.

**Debenture Interest** is the interest payable yearly or half yearly on the money borrowed.

**Difference between a Shareholder and a Debenture Holder.**—A shareholder is an *inside* person, a partner in the company; a debenture holder is an *outside* person, merely a loan creditor. A shareholder shares in the profits, getting a *dividend* on the money he has invested; a debenture holder receives *interest* on the money he has lent, charged against the profits as a working expense.

**Books which a Limited Company is Required by Law to Keep.**—The statutory books and documents are—

(1) **Register of Members (Share Ledger).**—This must contain the following particulars—

(a) The names and addresses, and the occupations (if any), of the members, and in the case of a company having a share capital a statement of the shares held by each member, distinguishing each share by its number, and of the amount paid or agreed to be considered as paid on the shares of each member;

(b) The date at which each person was entered in the register as a member;

(c) The date at which any person ceased to be a member.

No trusts, however, are to be entered on the register. The register must be kept at the registered office of the company, and must, for not less than two hours each day, be open to the inspection of any member gratis, and to the inspection of any other person on payment of a fee not exceeding 1s. Any member or other person may require a copy of the register, or of any part of it, or of the list and summary required by the Act, or any part of it, on payment of the prescribed fee. A company may, on giving notice by advertisement in some paper circulating in the district in which the registered office is situate, close the register for any time or times not

exceeding in the whole thirty days in each year. The Court has power to rectify the register in the case of mistakes or omissions. The Register of Members is *primâ facie* evidence of any matters directed or authorised by the Act to be inserted therein. A joint stock company whose objects comprise the transaction of business in a colony (including British India and Australia) may, if so authorised by its articles, keep a branch register of members in that colony, and such **Colonial Register** is deemed to be part of its principal register. A copy of each entry must be transmitted to the registered office in order that a duplicate of such register may be kept there.

(2) **Register of Directors and Managers.**—Every company must keep at its registered office a register containing the names and addresses and the occupations of its directors or managers, and send to the registrar of companies a copy thereof, and from time to time notify to the registrar any change among its directors or managers.

(3) **Register of Mortgages and Charges.**—In this must be entered all mortgages and charges specifically affecting property of the company, giving in each case a short description of the property mortgaged or charged, the amount of the mortgage or charge, and (except in the case of securities to bearer) the names of the mortgagees or persons entitled thereto. This register, and also the copies of instruments creating any mortgage or charge requiring registration under the Act, must be open at all reasonable times to the inspection of any creditor or member of the company without fee, and of any other person on payment of a fee not exceeding 1s.

(4) **Register of Debenture Holders.**—This is implied by Section 102 of the Act, which requires every register of debenture holders of a company, except when closed in accordance with the articles (not exceeding thirty days in any year), to be open to the inspection of the registered holder of any such debentures, and of any holder of shares in the company, for not less than two hours in each day. Every such holder may, on payment of the prescribed fee, require a copy of the register or any part of it, or a copy of any trust deed for securing any issue of debentures.

(5) **Minute Book.**—Every company must cause minutes of all proceedings of general meetings and (where there are directors or managers) of the meetings of its directors or managers to be entered in books kept for that purpose. Any

such minute if purporting to be signed by the chairman of the meeting at which the proceedings were had, or by the chairman of the next succeeding meeting, is evidence of the proceedings.

(6) **Annual List of Members, Summary of Share Capital, and Statement in Form of Balance Sheet.**—(See under ANNUAL SUMMARY.)

**I. Shares and Debentures Payable in Full.**—Shares and debentures may be issued payable in full at once. In these cases, separate accounts are opened for each class of shareholders and debenture holders, and for each kind of share capital and debentures.

**Shares and Debentures at Par.**—Shares and debentures may be issued **at par**, that is, at a price *equal to* their nominal value, as, for instance, a £1 share for £1, or a £100 debenture bond for £100.

**Example 1.**—A Limited Company issued at par 100,000 Preference Shares of £1 each, and £50,000 6 per cent. "A" Debentures in bonds of £100 each, which were all subscribed and fully paid up. Make the necessary Journal, Cash Book, and Ledger entries, and show also the Trial Balance and Balance Sheet.

JOURNAL.		Dr.	Cr.
Preference Shareholders.. ..	100,000		
To Preference Share Capital ..			100,000
100,000 shares of £1 each.			
Debenture Holders .. ..	50,000		
To 6% "A" Debentures ..			50,000
500 bonds of £100 each.			

Dr.

CASH BOOK.

Receipts.		Bank.	
To Preference Shareholders.. ..	100,000		
„ Debenture Holders .. ..	50,000		
		150,000	

## LEDGER.

Dr.

## PREFERENCE SHAREHOLDERS.

Cr.

To Pref.Sh.Cap.	100,000			By Cash.. ..	100,000		
-----------------	---------	--	--	--------------	---------	--	--

Dr.

## DEBENTURE HOLDERS.

Cr.

To Debentures	50,000			By Cash.. ..	50,000		
---------------	--------	--	--	--------------	--------	--	--

Dr.

## PREFERENCE SHARE CAPITAL.

Cr.

				By Pref. S'hdrs.	100,000		
--	--	--	--	------------------	---------	--	--

Dr.

## 6 PER CENT. "A" DEBENTURES.

Cr.

				By Deb. Holdrs.	50,000		
--	--	--	--	-----------------	--------	--	--

## TRIAL BALANCE.

Dr.

Cr.

Preference Share Capital ..				100,000		
Debentures .. ..				50,000		
Cash at Bank .. ..	150,000					
	150,000			150,000		

## BALANCE SHEET.

Capital and Liabilities.				Property and Assets.			
Preference Share Capital :—				Cash at Bank .. ..	150,000		
100,000 Shares of £1 each ..	100,000						
6% "A" Debentures :—							
500 Bonds of £100 each ..	50,000						
	150,000				150,000		

**Treatment of Details.**—When studying these examples, the student must remember that in the Journal, General Cash Book, and General Ledger the details as to the individual shareholders and amounts are omitted, and only the totals recorded. The details, however, are not ignored altogether, but are entered into various statistical books, such as the **Application and Allotment Book**, and the **Call Book**, and a subsidiary Cash Book, and are posted to a separate ledger, called the **Share Ledger**, kept specially for the purpose. The totals (and likewise the details) of the money received are obtained from the Bank Pass Book, the company's bankers generally acting as collectors for the company. In a private company, however, the money is sometimes remitted direct to the company's registered office.

**Journal Entries.**—Journal entries are sometimes dispensed with, and only Cash Book entries made for the money actually received. For instance, the Cash Book in Example 1 would, if worked by this method, appear as follows—

<i>Dr.</i>	CASH BOOK.				
	Receipts.				Bank.
	To Preference Share Capital .. ..	100,000			
	,, Debentures .. ..	50,000			

As, however, this is a short cut at the expense of clearness, such a practice, though theoretically correct, cannot be recommended to the student.

**Shares and Debentures at a Premium.**—Shares and debentures may be issued not only at par, but also **at a premium**, that is, at a price *above* their nominal value. A separate account must be opened for the premium, which forms no part of the Company's capital, but is simply a gain to them.

**Example 2.**—A Limited Company issued 100,000 Ordinary Shares of £1 each at 22s. 6d. per share, and £50,000 Debentures in bonds of £100 each at a premium of 5 per cent., which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, and show also the Company's Balance Sheet.

JOURNAL.	Dr.	Cr.
Ordinary Shareholders .. ..	112,500	
To Ordinary Share Capital ..		100,000
(100,000 shares of £1 each.)		
To Ordinary Share Premium ..		12,500
2/6 per share on 100,000 shares.		
Debenture Holders .. ..	52,500	
To Debentures .. ..		50,000
(500 bonds of £100 each.)		
To Debenture Premium ..		2,500
5 % of £50,000.		

Dr.	CASH BOOK.		
	Receipts.	Bank.	
	To Ordinary Shareholders .. ..	112,500	
	„ Debenture Holders .. ..	52,500	
		165,000	

## BALANCE SHEET.

Capital and Liabilities.		Property and Assets.	
Ordinary Share Capital :—		Cash at Bank .. ..	165,000
100,000 Shares of £1 each ..	100,000		
Debentures :—			
500 Bonds of £100 each ..	50,000		
Ordinary Share Premium ..	12,500		
Debenture Premium ..	2,500		
	165,000		165,000

**Debentures at a Discount.**—Unlike shares, which can only be issued at par or at a premium, Debentures may be issued not only at par or at a premium, but also **at a discount**, that is, at a price *below* their nominal value. A separate account must be opened for the discount, which is really a loss to the Company.

**Example 3.**—A Limited Company issued 500 Debenture



Bonds of £100 each at £95 per bond, which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, and show also the Company's Balance Sheet.

JOURNAL.			Dr.		Cr.
Debenture Holders .. ..	..	..	47,500		
(£95 per bond on 500 bonds.)					
Debenture Discount .. ..	..	..	2,500		
(£5 per bond on 500 bonds.)					
To Debentures .. ..	..	..			50,000

Dr			CASH BOOK.		
			Receipts.	Bank.	
			To Debenture Holders .. ..	47,500	

BALANCE SHEET.					
Capital and Liabilities.			Property and Assets.		
Debentures :—			Cash at Bank ..	47,500	
500 Bonds of £100 each ..	50,000		Debenture Discount ..	2,500	
	50,000			50,000	

**II. Shares and Debentures Payable by Instalments.**—Shares and Debentures are most frequently issued payable by instalments at certain intervals. In these cases, separate accounts are opened for the different instalments, both for shares and debentures.

**Example 1.**—A Limited Company issued 100,000 Ordinary Shares of £1 each, payable 2s. 6d. per share on application, 7s. 6d. on allotment, 5s. on each of two subsequent calls, which were all subscribed and the money duly received. Make the necessary Journal, Cash Book, and Ledger entries, and show also the Company's Balance Sheet.

## JOURNAL.

Dr.

Cr.

Application A/c (Ord. Shares) ..	12,500				
To Ordinary Share Capital ..				12,500	
2/6 per share on 100,000 shares.					
Allotment A/c (Ord. Shares) ..	37,500				
To Ordinary Share Capital ..				37,500	
7/6 per share on 100,000 shares.					
First Call A/c (Ord. Shares) ..	25,000				
To Ordinary Share Capital ..				25,000	
5/- per share on 100,000 shares.					
Second Call A/c (Ord. Shares) ..	25,000				
To Ordinary Share Capital ..				25,000	
5/- per share on 100,000 shares.					

Note.—Some accountants amalgamate the amounts due on application and allotment, thus:—

Application and Allotment A/c (Ord. Shares) Dr. £50,000  
 To Ordinary Share Capital .. Cr. £50,000  
 (2s. 6d. on application and 7s. 6d. on allotment on 100,000 shares.)

Dr.

## CASH BOOK.

	Receipts.	Bank.		
	To Application A/c (Ord. Shares) ..	12,500		
	„ Allotment A/c (Ord. Shares) ..	37,500		
	„ First Call A/c (Ord. Shares) ..	25,000		
	„ Second Call A/c (Ord. Shares) ..	25,000		
		100,000		

## LEDGER.

Dr.

## APPLICATION ACCOUNT (ORDINARY SHARES).

Cr.

To Ord. Share Capital .	12,500		By Cash .. ..	12,500
-------------------------	--------	--	---------------	--------

Dr.

## ALLOTMENT ACCOUNT (ORDINARY SHARES).

Cr.

To Ord. Share Capital .	37,500		By Cash .. ..	37,500
-------------------------	--------	--	---------------	--------

<i>Dr.</i>		FIRST CALL ACCOUNT (ORDINARY SHARES).				<i>Cr.</i>	
	To Ord. Share Capital ..	25,000			By Cash .. .. .	25,000	
<i>Dr.</i>		SECOND CALL ACCOUNT (ORDINARY SHARES).				<i>Cr.</i>	
	To Ord. Share Capital ..	25,000			By Cash .. .. .	25,000	
<i>Dr.</i>		ORDINARY SHARE CAPITAL.				<i>Cr.</i>	
					By Application A/c ..	12,500	
					„ Allotment A/c ..	37,500	
					„ First Call A/c.. ..	25,000	
					„ Second Call A/c ..	25,000	

## BALANCE SHEET.

<i>Capital and Liabilities.</i>		<i>Property and Assets.</i>	
Ordinary Share Capital :—		Cash at Bank .. .. .	100,000
100,000 Shares of £1 each ..	100,000		
	100,000		100,000

**Sundry Shareholders Method used for Shares Payable by Instalments.**—The Sundry Shareholders method is sometimes used for shares which are not payable in full on application. In that case, the Journal entries for the previous example would be similar to the following—

JOURNAL.		<i>Dr.</i>	<i>Cr.</i>
Sundry Shareholders .. ..	12,500		
To Ordinary Share Capital ..			12,500
2/6 per share on 100,000 shares, payable on application.			

The Application, Allotment, and Call Account method, however, is much clearer when the amounts are payable by instalments, and, in fact, is the method adopted in practice by the great majority of accountants.

**Example 2.**—A Limited Company issued 100,000 Preference Shares of £1 each at a premium of 2s. 6d. per share, payable 5s. per share on application, 7s. 6d. on allotment (including the premium), and 5s. on each of two later calls. The shares were all subscribed and the money duly received. Make the necessary Journal and Cash Book entries.

JOURNAL.		Dr.	Cr.
Application A/c (Pref. Shares) ..	25,000		
To Preference Share Capital ..			25,000
5/- per share on 100,000 shares.			
Allotment A/c (Pref. Shares) ..	37,500		
To Preference Share Capital ..			25,000
(5/- per share on 100,000 shares.)			
To Preference Share Premium ..			12,500
2/6 per share on 100,000 shares.			
First Call A/c (Pref. Shares) ..	25,000		
To Preference Share Capital ..			25,000
5/- per share on 100,000 shares.			
Second Call A/c (Pref. Shares) ..	25,000		
To Preference Share Capital ..			25,000
5/- per share on 100,000 shares.			

Dr.	CASH BOOK.	
	Receipts.	Bank.
	To Application A/c (Pref. Shares) ..	25,000
	„ Allotment A/c (Pref. Shares) ..	37,500
	„ First Call A/c (Pref. Shares) ..	25,000
	„ Second Call A/c (Pref. Shares) ..	25,000
		112,500

**Example 3.**—A Limited Company issued £50,000 First-Mortgage Debentures at par, payable 20 per cent. on application, 30 per cent. on allotment, and the balance three months later. The money was duly received. Make the necessary Journal and Cash Book entries.

JOURNAL.		Dr.	Cr.
Application A/c (Debentures) ..	10,000		
To First Mortgage Debentures ..			10,000
20 % of £50,000.			
Allotment A/c (Debentures) ..	15,000		
To First Mortgage Debentures ..			15,000
30 % of £50,000.			
Call A/c (Debentures) ..	25,000		
To First Mortgage Debentures ..			25,000
50 % of £50,000.			

Dr.

## CASH BOOK.

	Receipts.	Bank.		
	To Application A/c (Debentures) ..	10,000		
	„ Allotment A/c (Debentures) ..	15,000		
	„ Call A/c (Debentures) ..	25,000		
		50,000		

**Example 4.**—A Limited Company issued £50,000 Debentures in bonds of £100 each at a premium of £5 per bond, payable £25 per bond on application (including the premium), and the balance on allotment. The money was duly received. Make the necessary Journal and Cash Book entries.

## JOURNAL.

Dr.

Cr.

Application A/c (Debentures) ..	12,500				
To Debentures .. ..			10,000		
(£20 per bond on 500 bonds.)					
To Debenture Premium ..			2,500		
£5 per bond on 500 bonds.					
Allotment A/c (Debentures) ..	40,000				
To Debentures .. ..			40,000		
£80 per bond on 500 bonds.					

Dr.

## CASH BOOK.

	Receipts.	Bank.		
	To Application A/c (Debentures) ..	12,500		
	„ Allotment A/c (Debentures) ..	40,000		
		52,500		

**Example 5.**—A Limited Company issued 500 Debenture Bonds of £100 each at a discount of 5 per cent., payable 25 per cent. on application, and the balance on allotment. The money was duly received. Make the necessary Journal and Cash Book entries.

## JOURNAL.

Dr.

Cr.

Debenture Discount .. ..	2,500				
To Debentures .. ..				2,500	
5 % of £50,000.					
Application A/c (Debentures) ..	12,500				
To Debentures .. ..				12,500	
25 % of £50,000.					
Allotment A/c (Debentures) ..	35,000				
To Debentures .. ..				35,000	
70 % of £50,000.					

Dr.

## CASH BOOK.

	Receipts.	Bank.		
To Application A/c (Debentures) ..	12,500			
„ Allotment A/c (Debentures) ..	35,000			
		47,500		

**Note.**—No mention of Premiums or Discounts is ever made in the Cash Book, such items appearing in the Journal only. As far as the Cash Book is concerned, the receipts, in the case of a premium, will be *more*, and in the case of a discount, *less* than the nominal value of the shares or debentures.

**Shares Over-Subscribed.**—Shares are frequently over-subscribed, that is, more people apply for shares than there are shares to allot. Those persons to whom no shares are allotted have their money refunded in full. In the case of those subscribers, however, who are allotted a smaller number of shares than they have applied for, the money overpaid on application is not returned to them, but is carried forward to the credit of the amount due from them on allotment.

**Example.**—A Limited Company offered for subscription 100,000 Shares of £1 each, payable 2s. 6d. per share on application, and 5s. per share on allotment. Applications were received for 120,000 shares. The deposits on 10,000 shares were returned to those persons to whom no shares were allotted. The deposits on the other 10,000 shares were carried forward to the Allotment Account, these subscribers having paid for more shares than were allotted to them.



The moneys payable on allotment were duly received. Make the necessary entries in the company's books to record the above transactions.

JOURNAL.		Dr.	Cr.
Application A/c .. .. .	12,500		
To Share Capital .. .. .			12,500
2/6 per share on 100,000 shares.			
Application A/c .. .. .	1,250		
To Allotment A/c .. .. .			1,250
Transfer of 2/6 per share on 10,000 shares overpaid on application.			
Allotment A/c .. .. .	25,000		
To Share Capital .. .. .			25,000
5/- per share on 100,000 shares.			

Dr.		CASH BOOK.		Cr.	
Receipts.		Bank.	Payments.	Bank.	
To Application Account ..	15,000		By Application Account		
„ Allotment Account ..	21,750		(deposits returned to non-allottees)		1,250
			„ Balance c/d .. ..	37,500	
		38,750		38,750	
To Balance b/d .. ..	37,500				

Dr.		LEDGER.		Cr.	
		APPLICATION ACCOUNT.			
To Share Capital ..	12,500		By Cash .. .. .	15,000	
„ Allotment A/c ..	1,250				
„ Cash (returned) ..	1,250				
	15,000			15,000	

Dr.		ALLOTMENT ACCOUNT.		Cr.	
To Share Capital ..	25,000		By Application A/c ..	1,250	
			„ Cash .. .. .	23,750	
	25,000			25,000	

Dr.	SHARE CAPITAL.				Cr.
				By Application A/c ..	12,500
				„ Allotment A/c ..	25,000

The student should note that the *Journal* entry is made, not for the number of shares really applied for, but only for the number of shares actually allotted. In the Cash Book, however, the exact amount of money received must, of course, be recorded. The Application Account thus gets over-credited; but the Cash Book entry subsequently returning money to non-allottees, together with the Journal entry transferring the amount overpaid by allottees, adjusts this discrepancy and makes the Application Account balance.

If it is desired to journalise the whole of the applications received, the entry would take the following form—

JOURNAL.		Dr.	Cr.
Application A/c .. .. .	15,000		
To Share Capital (allottees) ..			12,500
(2/6 per share on 100,000 shares.)			
To Sundry Subscribers (non-			
allottees) .. .. .			1,250
(2/6 per share on 10,000 shares.)			
To Allotment A/c .. .. .			1,250
Transfer of amount overpaid by			
allottees, viz., 2/6 per share on			
10,000 shares.			

And the Cash Book entry for the repayment of the deposits of the non-allottees, instead of being "*By Application Account*," would, in this case, be "*By Sundry Subscribers (non-allottees)*." In the Ledger we should have—

Dr.	SUNDRY SUBSCRIBERS (NON-ALLOTTEES).				Cr.
To Cash (returned) ..	1,250			By Application A/c ..	1,250

**Nominal Capital Shown on Balance Sheet.**—When shares are payable by instalments, the books at any date will only record such part of the capital as has been actually called up at this date. On the balance sheet, however, it is usual

to show both the Nominal and the Issued Capital, with the amount called up on the shares so issued.

**Calls in Arrear and Calls in Advance.**—Should any of the shareholders fail to pay the sums due from them—and this is frequently the case—the Allotment and Call Accounts (or the Sundry Shareholders Account if such has been employed) will show as debit balances the amounts owing; and the total of these amounts will constitute the **Calls in Arrear**. Some shareholders, however, pay their shares right up in full before the proper time. In such cases, the money received by the Company in excess of what has been called up must be put to a separate account, termed "**Calls in Advance**," as it does not yet form part of the Company's capital. Although the Calls in Arrear and the Calls in Advance are separate accounts in the ledger, yet they are not shown separately on the balance sheet, but are merged with the Capital, the Calls in Advance being added and the Calls in Arrear deducted.

**Example.**—A Limited Company with a registered Capital of £200,000 in shares of £1 each, issued 100,000 of such shares, payable 2s. 6d. per share on application, 2s. 6d. on allotment, 5s. three months later, and the balance as and when required. All moneys payable on allotment were duly received. But when the call of 5s. per share was made, one shareholder failed to pay the amount due on his 200 shares; and another shareholder, who held 150 shares, paid them right up in full. Make the necessary entries in the company's books to record the above transactions, and show the Capital on the Company's Balance Sheet.

JOURNAL.				Dr.		Cr.
Application A/c .. .. .	12,500					
To Share Capital .. .. .					12,500	
2/6 per share on 100,000 shares.						
Allotment A/c .. .. .	12,500					
To Share Capital .. .. .					12,500	
2/6 per share on 100,000 shares.						
First Call A/c .. .. .	25,000					
To Share Capital .. .. .					25,000	
5/- per share on 100,000 shares.						

Dr.

## CASH BOOK.

	Receipts.	Bank.		
To Application A/c .. .. .	12,500			
„ Allotment A/c .. .. .	12,500			
„ First Call A/c (£25,000 - £50) .. .. .	24,950			
„ Calls in Advance .. .. .	75			
(10/- per share on 150 shares)				
	50,025			

## BALANCE SHEET.

<i>Capital and Liabilities.</i>					
Nominal Capital :—					
200,000 Shares of £1 each .. .. .	200,000				
Issued Capital :—					
100,000 Shares of £1 each, 10/-called up	50,000				
add Calls in Advance .. .. .	75				
	50,075				
less Calls in Arrear .. .. .	50			50,025	

**Purchase of a Business.**—A large number of Joint Stock Companies are formed for the express purpose of acquiring and working an old-established business. The person who sells the business to the company, called the **vendor**, is generally paid partly in money and partly in shares. The latter are valued either at par or at a premium according to the agreement, and are marked either fully paid or with the amount agreed to be credited on them. Sometimes the cash of the old business is taken over, and sometimes not ; sometimes the liabilities are assumed by the company, and sometimes left for the vendor himself to discharge. Whenever the purchase price exceeds the total value of the assets taken over, or the net capital value of the business (*i.e.*, the difference between the assets and liabilities) when both assets and liabilities are taken over, such excess denotes the value of the **goodwill** of the business acquired, and must be put to a Goodwill Account.

**Example.**—A Joint Stock Company with a registered Capital of £200,000, consisting of 100,000 Ordinary Shares of £1 each,

and 100,000 6 per cent. Preference Shares of £1 each, and also £50,000 Debentures in bonds of £100 each, purchased as a going concern for £160,000 the business of Messrs. Fielder & Co., as per the following particulars—

## BALANCE SHEET OF FIELDER &amp; CO.

<i>Liabilities.</i>			<i>Assets.</i>		
Bills Payable .. ..	10,000		Cash .. ..	5,000	
Sundry Creditors .. ..	20,000		Bills Receivable .. ..	2,000	
Capital .. ..	130,000		Book Debts .. ..	42,000	
			Freehold Premises .. ..	68,000	
			Plant and Machinery .. ..	20,000	
			Stock .. ..	18,000	
			Furniture and Fixtures ..	5,000	
	160,000			160,000	

The purchase price was to be paid, £40,000 in fully-paid Ordinary Shares, £40,000 in fully-paid Preference Shares, £40,000 in fully-paid Debentures, and the balance in Cash. The remainder of the Shares and Debentures were offered to the public, and were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, and draw up the Company's Balance Sheet.

## JOURNAL.

Dr.

Cr.

Purchase Account .. ..	160,000			
To Fielder & Co. (Vendors) ..			160,000	
as per Agreement dated.....				
Cash .. ..	5,000			
Bills Receivable .. ..	2,000			
Sundry Debtors .. ..	42,000			
Freehold Premises .. ..	68,000			
Plant and Machinery .. ..	20,000			
Stock .. ..	18,000			
Furniture and Fixtures .. ..	5,000			
Goodwill .. ..	30,000			
To Purchase Account .. ..			190,000	
Sundry assets acquired as per Agreement dated.....				
Purchase Account .. ..	30, 00			
To Bills Payable .. ..			10,000	
„ Sundry Creditors .. ..			20,000	
Sundry liabilities taken over as per Agreement dated....				

JOURNAL—continued.

Dr.

Cr.

Ordinary Shareholders ..	60,000				
To Ordinary Share Capital .				60,000	
60,000 shares of £1 each.					
Preference Shareholders ..	60,000				
To Preference Share Capital				60,000	
60,000 shares of £1 each.					
Debenture Holders .. ..	10,000				
To Debentures .. ..				10,000	
100 bonds of £100 each.					
Fielder & Co. (Vendors) ..	120,000				
To Ordinary Share Capital .				40,000	
(40,000 shares of £1 each.)					
To Preference Share Capital				40,000	
(40,000 shares of £1 each.)					
To Debentures .. ..				40,000	
(400 bonds of £100 each.)					
Shares and Debentures issued as fully paid in part payment of the purchase price, as per Agreement dated.....					

Dr.

CASH BOOK.

Cr.

Receipts.	Bank.	Payments.	Bank.
To Balance ..	5,000	By Fielder & Co.	
„ Ord. Shareholders ..	60,000	(Vendors)..	40,000
„ Pref. Shareholders ..	60,000	„ Balance c/d ..	95,000
„ Debenture Holders ..	10,000		
	135,000		135,000
To Balance b/d ..	95,000		

BALANCE SHEET OF THE ..... CO., LTD.

Capital and Liabilities.	Property and Assets.
Nominal & Issued Capital—	Freehold Premises .. .. 68,000
Ordinary Share Capital—	Goodwill .. .. 30,000
100,000 shares of £1 each	Plant and Machinery .. .. 20,000
Preference Share Capital—	Furniture and Fixtures .. .. 5,000
100,000 shares of £1 each	Stock .. .. 18,000
Debentures—	Sundry Debtors .. .. 42,000
500 Bonds of £100 each ..	Bills Receivable .. .. 2,000
Sundry Creditors .. ..	Cash at Bank .. .. 95,000
Bills Payable .. ..	
280,000	280,000

Profits Prior to Incorporation.—It frequently happens that a Company acquires a business from a date previous to the date of its own incorporation. If the Company has a right



to any profits earned prior to its existence, such profits, however, are not profits available for dividend; for a Company cannot legally earn profits before its incorporation. Such profit should, therefore, be used to write down Goodwill, or to defray a capital expense such as Preliminary or Formation Expenses, or be put to a Special Reserve Account, and any future depreciation of the fixed assets originally taken over charged against it until it is absorbed. If the amount of such profits has not been definitely or approximately ascertained, the first year's Trading Account must be divided into two periods, namely, *before* and *after* incorporation. The first year's profits must then be apportioned either according to the periods themselves, or in proportion to the turnovers of the respective periods. And only those profits will be available for dividend which have been earned during the period subsequent to the date of incorporation.

**Example.**—A Joint Stock Company was incorporated on 1st April to take over a business as a going concern from the 1st Jan. of the same year. The total turnover for the year ending 31st Dec. was £120,000, namely, £20,000 for the first three months, and £100,000 for the ensuing nine months. The net profit for the same year was £12,000. How should the profits earned prior to incorporation be ascertained?

(1) The first year's profits may be apportioned according to the respective periods of time. Thus,  $\frac{3}{12}$  of £12,000, that is, £3,000, would be profits prior to incorporation; while  $\frac{9}{12}$  of £12,000, that is, £9,000, representing the profit earned from 1st April to 31st Dec., would be the Company's own profits, to be allocated or disposed of as it might determine.

(2) The first year's profits may also be apportioned according to the turnovers of the respective periods. Thus,  $\frac{20000}{120000}$  of £12,000, namely, £2,000, would represent the profits to be transferred to a Special Reserve Account for profits earned prior to incorporation; and  $\frac{100000}{120000}$  of £12,000, namely, £10,000, would remain as the Company's own net trading profits, for appropriation in whatever way the shareholders resolved.

The variation in the result, as worked by the different methods, only emphasises the necessity for actual stock-taking in order to arrive at the exact amount. Where, however, this cannot, without very great inconvenience, be done, the apportionment of the profit *according to the turnovers* is deemed to be the more accurate method of the two.

**Appropriation Account.**—(See under APPROPRIATION ACCOUNT, and also TRADING ACCOUNT OF A COMPANY.)

**Amalgamation of Companies.**—Limited Companies, whose undertakings are of a like nature, often combine or amalgamate, a New Company being formed to acquire and carry on the businesses of two or more Companies. Combines are effected for the sake of economy in working, that is, to reduce establishment charges and management expenses, it being often possible for one company to do the combined turnovers of two or three others with very little increase in its own working expenses. The new company takes over, at an agreed valuation, the assets of the old companies, and generally assumes their liabilities. When such items as a credit balance of Profit and Loss or Revenue Account, Reserve Account or Fund, or other accumulated profit balances appear in the Balance Sheets, they are, if the amounts are large, capitalised, and extra shares issued to the shareholders in respect of them. If, however, the amounts are small, they may be used to write down the value of the Goodwill or of any of the fixed assets. The book entries are somewhat similar to a winding up, except that there is no return of Capital to contributories, the shareholders receiving instead fully paid shares in the new company, according to the number and value of the shares they hold in the old company.

**Example.**—Two Companies, whose businesses are similar, decide to amalgamate on the basis of their respective Balance Sheets given below, and a New Company is formed to carry out the arrangement. Illustrate the best method of doing this, giving the Journal entries necessary to close the books of the old companies and to open the books of the New Company. Show also the New Company's Balance Sheet.

### THE "P" COMPANY, LTD.

#### BALANCE SHEET AS AT 30TH JUNE, 19...

<i>Capital and Liabilities.</i>			<i>Property and Assets.</i>		
Share Capital :—			Land and Buildings ..	..	50,000
100,000 Shares of £1 each			Plant and Machinery ..	..	25,000
fully paid ..	100,000		Goodwill .. ..	..	20,000
Sundry Creditors .. ..	8,350		Stock .. ..	..	8,000
Reserve Fund .. ..	4,650		Sundry Debtors .. ..	..	11,800
Dividend Reserve .. ..	1,000		Cash at Bank .. ..	..	1,550
Profit and Loss Account ..	2,350				
	<u>116,350</u>				<u>116,350</u>

## THE "Q" COMPANY, LTD

BALANCE SHEET AS AT 30TH JUNE, 19...

<i>Capital and Liabilities.</i>			<i>Property and Assets.</i>		
Share Capital :—			Land and Buildings ..	30,000	
60,000 Shares of £1 each	} 60,000		Plant and Machinery ..	18,000	
fully paid ..			Goodwill ..	10,000	
Sundry Creditors ..	5,450		Stock ..	5,000	
Reserve Fund ..	4,300		Sundry Debtors ..	7,400	
Profit and Loss Account ..	1,700		Cash at Bank ..	1,050	
	<u>71,450</u>			<u>71,450</u>	

The amounts due to the shareholders of the P. and Q. Companies are as follows—

P	£	Q	£
Capital ..	100,000	Capital ..	60,000
Reserve Fund ..	4,650	Reserve Fund ..	4,300
Dividend Reserve ..	1,000	Profit and Loss A/c ..	1,700
Profit and Loss A/c ..	2,350		
	<u>108,000</u>		<u>66,000</u>

which is represented by—

P	£	Q	£
Gross Assets ..	116,350	Gross Assets ..	71,450
less Creditors ..	8,350	less Creditors ..	5,450
	<u>108,000</u>		<u>66,000</u>

The proportion of the Capitals in the Old and New Companies are—

	Old.	New	Old.	New.	Old.	New.
P ..	100,000	: 108,000	or 100	: 108	or 25	: 27
Q ..	60,000	: 66,000	or 60	: 66	or 10	: 11

Therefore, 108,000 shares of £1 each, fully paid, must be issued to the shareholders of the P. Company; that is, 27 shares in the New Company must be given in exchange for

every 25 shares of the P. Company. And 66,000 shares of £1 each, fully paid, must be issued to the shareholders of the Q. Company, that is, 11 shares in the New Company must be given in exchange for every 10 shares of the Q. Company.

The entries in the P. Company's books would be—

JOURNAL.		Dr.	Cr.
19..			
June 30	Share Capital .. .. .	100,000	
	Reserve Fund .. .. .	4,650	
	Dividend Reserve .. .. .	1,000	
	Profit and Loss A/c .. .. .	2,350	
	To Sundry Shareholders A/c		108,000
	Balances transferred.		
30	Realisation A/c .. .. .	116,350	
	To Land and Buildings .. .. .		50,000
	„ Plant and Machinery .. .. .		25,000
	„ Goodwill .. .. .		20,000
	„ Stock .. .. .		8,000
	„ Sundry Debtors .. .. .		11,800
	„ Cash at Bank .. .. .		1,550
	Sundry assets sold to the P.Q. Co., Ltd., as per Agreement dated.....		
30	Sundry Creditors .. .. .	8,350	
	To Realisation A/c .. .. .		8,350
	Sundry liabilities taken over by the P. Q. Co., Ltd., as per Agreement dated.....		
30	P. Q. Co., Ltd. .. .. .	108,000	
	To Realisation A/c .. .. .		108,000
	Purchase price of business as per Agreement dated.. .. .		
30	P. Q. Co. Shares A/c .. .. .	108,000	
	To P. Q. Co., Ltd. .. .. .		108,000
	Receipt of 108,000 shares of £1 each, fully paid, in discharge of purchase price of business.		
30	Sundry Shareholders .. .. .	108,000	
	To P. Q. Co. Shares A/c .. .. .		108,000
	Issue of 27 new shares in exchange for every 25 old shares.		

The entries in the Q. Company's books would be—

JOURNAL.		Dr.	Cr.
19..			
June 30	Share Capital .. .. .	60,000	
	Reserve Fund .. .. .	4,300	
	Profit and Loss A/c .. ..	1,700	
	To Sundry Shareholders A/c		66,000
	Balances transferred.		
30	Realisation A/c .. .. .	71,450	
	To Land and Buildings ..		30,000
	„ Plant and Machinery ..		18,000
	„ Goodwill .. .. .		10,000
	„ Stock .. .. .		5,000
	„ Sundry Debtors .. ..		7,400
	„ Cash at Bank .. ..		1,050
	Sundry assets sold to the P. Q. Co., Ltd., as per Agreement dated.....		
30	Sundry Creditors .. ..	5,450	
	To Realisation A/c .. ..		5,450
	Sundry liabilities taken over by the P. Q. Co., Ltd., as per Agreement dated.....		
30	P. Q. Co., Ltd. .. .. .	66,000	
	To Realisation A/c .. ..		66,000
	Purchase price of business as per Agreement dated.....		
30	P. Q. Co. Shares A/c .. ..	66,000	
	To P. Q. Co., Ltd. .. ..		66,000
	Receipt of 66,000 shares of £1 each, fully paid, in discharge of purchase price of business.		
30	Sundry Shareholders .. ..	66,000	
	To P. Q. Co. Shares A/c ..		66,000
	Issue of 11 new shares in exchange for every 10 old shares.		

The entries in the New Company's (P. Q. Co.'s) books would be as follows—

## JOURNAL.

Dr.

Cr.

19..									
July 1	Land and Buildings .. ..	50,000							
	Plant and Machinery .. ..	25,000							
	Goodwill .. ..	20,000							
	Stock .. ..	8,000							
	Sundry Debtors .. ..	11,800							
	Cash at Bank .. ..	1,550							
	To Sundry Creditors .. ..						8,350		
	„ Liquidator P. Co., Ltd. ..						108,000		
	Sundry assets and liabilities taken over from the P. Co., Ltd., as per Agreement dated.....								
1	Liquidator P. Co., Ltd. .. ..	108,000							
	To Share Capital A/c .. ..						108,000		
	Issue of 108,000 shares of £1 each, credited as fully paid, in pay- ment of the purchase price of the business.								
1	Land and Buildings .. ..	30,000							
	Plant and Machinery .. ..	18,000							
	Goodwill .. ..	10,000							
	Stock .. ..	5,000							
	Sundry Debtors .. ..	7,400							
	Cash at Bank .. ..	1,050							
	To Sundry Creditors .. ..						5,450		
	„ Liquidator Q. Co., Ltd. ..						66,000		
	Sundry assets and liabilities taken over from the Q. Co., Ltd., as per Agreement dated.								
1	Liquidator Q. Co., Ltd. .. ..	66,000							
	To Share Capital A/c .. ..						66,000		
	Issue of 66,000 shares of £1 each, credited as fully paid, in pay- ment of the purchase price of the business.								

## BALANCE SHEET OF THE P. Q. CO., LTD.

Capital and Liabilities.			Property and Assets.		
Share Capital :—			Land and Buildings .. ..	80,000	
174,000 Shares of £1 each			Plant and Machinery .. ..	43,000	
fully paid .. ..	174,000		Goodwill .. ..	30,000	
Sundry Creditors .. ..	13,800		Stock .. ..	13,000	
			Sundry Debtors .. ..	19,200	
			Cash at Bank .. ..	2,600	
	187,800			187,800	



**Note 1. Re-valuation of Assets.**—When assets are re-valued for the purpose of amalgamation, revised Balance Sheets must be prepared, and any profit or loss on re-valuation must be adjusted with the Profit and Loss Account balance already existing, before the entries relating to the amalgamation are put through the books.

**Note 2. Fractions of Shares.**—Where fractions of shares are involved, shares equal to the total of such fractions are allotted to the liquidator, who sells the shares and distributes the proceeds to the shareholders concerned. For instance, suppose that an exact distribution required 100 shareholders to be allotted half a share each, then there would have to be a forced realisation of 50 shares; and the proceeds—say £40—would be distributed equally, 8s. to each of the 100 shareholders. As far as the Company is concerned, the 50 shares would still remain part of the Company's issued capital, the shares having merely changed hands.

**Absorption of One Company by Another.**—It frequently happens that a large Limited Company buys up or absorbs a smaller Company doing a kindred business, the object being to eliminate or reduce competition, and so ensure not only a larger turnover, but better prices, and hence increased profits. The purchasing company generally agrees to take over the liabilities of the other company, which then goes into voluntary liquidation. The Debentures may be either redeemed or exchanged for others in the purchasing company. If the purchasing company's Shares are issued to the shareholders of the vendor company at a premium, such premium should be recorded in the vendor company's books, in order to show the actual profit on the transaction. The premium should also be shown in the purchasing company's books, otherwise the purchase price of the business will appear at an amount far below what it really was; while, at the same time, the figure for Goodwill will be considerably understated.

**Example.**—The White Co., Ltd., is absorbed by the Black Co., Ltd., the consideration being the taking over of the trade liabilities; the payment of the costs of absorption, £600; the repayment of the "B" Debentures at a premium of 10 per cent.; the discharge of the "A" Debentures at a premium of 10 per cent. by the issue of 5 per cent. Mortgage Debentures in the Black Co., Ltd.; and a payment of £2 per share in Cash, and the exchange of 4 fully-paid £1 shares in the Black Co., Ltd., at the market price of £1 10s. per share, for every share in the White Co., Ltd. The following being the Balance Sheet of the White Co., Ltd., at the date of absorption, make the necessary entries in both Companies' books to record the transaction.

## BALANCE SHEET OF THE WHITE CO., LTD.

<i>Capital and Liabilities.</i>		<i>Property and Assets.</i>	
Share Capital :—		Land and Buildings ..	150,000
40,000 Shares of £5 each,	200,000	Plant and Machinery ..	100,000
fully paid ..		Goodwill ..	40,000
Debentures :—		Patent Rights ..	25,000
5 % "A" Debentures ..	100,000	Stock ..	20,000
5 % "B" Debentures ..	50,000	Sundry Debtors ..	36,000
Sundry Creditors ..	15,000	Investments on account of	
Reserve Fund ..	20,000	Sinking Fund ..	5,000
Sinking Fund ..	5,000	Cash at Bank ..	25,000
Employees' Savings Bank			
Deposits and Interest	8,000		
Profit and Loss Account,			
Credit Balance ..	3,000		
	401,000		401,000

The purchase price of the business is arrived at as follows :—

£55,000 in Cash on account of "B" Debentures, viz., £50,000  
plus a premium of £5,000.

110,000 in new Debentures on account of "A" Debentures,  
viz., £100,000 plus a premium of £10,000.

80,000 in Cash on account of old Shares, viz., £2 per share  
on each of 40,000 shares.

240,000 in Shares on account of old Shares, viz.,  $40,000 \times 4 =$   
160,000 Shares of £1 each, valued at the market  
price of 30/- per share.

600 Costs of absorption

£485,600 = Total amount.

The purchase price, £485,600, is thus payable: £135,600 in  
Cash, £110,000 in Debentures, and £240,000 in Shares.

The following would be the entries in the White Co.'s  
books—

JOURNAL.		Dr.	Cr.
Share Capital A/c .. ..	200,000		
Reserve Fund .. ..	20,000		
Sinking Fund .. ..	5,000		
Profit and Loss A/c .. ..	3,000		
To Sundry Shareholders A/c ..			228,000
Balances transferred.			
5 % "A" Debentures .. ..	100,000		
To "A" Debenture Holders ..			100,000
Balance transferred.			
5 % "B" Debentures .. ..	50,000		
To "B" Debenture Holders ..			50,000
Balance transferred.			

JOURNAL—continued.	Dr.	Cr.
Realisation A/c .. .. . To Land and Buildings .. .. „ Plant and Machinery .. .. „ Goodwill .. .. . „ Patent Rights .. .. . „ Stock .. .. . „ Sundry Debtors .. .. . „ Sinking Fund Investments .. „ Cash at Bank .. .. . Sundry assets sold to the Black Co., Ltd., as per Agreement	401,000	150,000 100,000 40,000 25,000 20,000 36,000 5,000 25,000
Realisation A/c .. .. . To Absorption Expenses .. ..	600	600
Sundry Creditors.. .. . To Realisation A/c .. .. . Sundry trade liabilities taken over by the Black Co., Ltd.	15,000	15,000
Black Co., Ltd. .. .. . To Realisation A/c .. .. . Purchase price of business as per Agreement dated.....	485,600	485,600
Realisation A/c .. .. . To "A" Debenture Holders A/c .. „ "B" Debenture Holders A/c .. „ Sundry Shareholders A/c .. Respective premiums and profit on absorption transferred.	99,000	10,000 5,000 84,000
Black Co. Shares A/c .. .. . Black Co. Debentures A/c .. .. To the Black Co., Ltd. .... Receipt of Debentures, and of 160,000 shares of £1 each, valued at 30/- per share, in part discharge of purchase con- sideration.	240,000 110,000	350,000
"A" Debenture Holders A/c .. .. To Black Co. Debentures A/c .. Issue of new Debentures in exchange for Debentures in the White Co.	110,000	110,000
Sundry Shareholders A/c .. .. To Black Co. Shares A/c .. .. Issue of 160,000 new Shares of £1 each, valued at 30/- per share, in exchange for shares in the White Co.	240,000	240,000

<i>Dr.</i>		CASH BOOK.				<i>Cr.</i>	
Receipts.		Bank.		Payments.		Bank.	
To Balance .. ..	..	25,000		By Realisation Account ..	..	25,000	
The Black Co., Ltd. ..	..	135,600		" Absorption Expenses ..	..	600	
				" "B" Deb. Holders ..	..	55,000	
				" Employees' Savings Bank			
				Deposits and Interest.	..	8,000	
				" Sundry Shareholders ..	..	72,000	
		160,600				160,600	

Owing to the difficulty experienced by students in understanding these absorptions, it has been thought advisable to show the full Ledger Accounts in the White Co.'s books, which would be as under—

<i>Dr.</i>		SHARE CAPITAL.				<i>Cr.</i>	
To Sun. Shareholders A/c	..	200,000		By Balance .. ..	..	200,000	

<i>Dr.</i>		5 PER CENT. "A" DEBENTURES.				<i>Cr.</i>	
To "A" Deb. Holders A/c	..	100,000		By Balance .. ..	..	100,000	

<i>Dr.</i>		5 PER CENT. "B" DEBENTURES.				<i>Cr.</i>	
To "B" Deb. Holders A/c	..	50,000		By Balance .. ..	..	50,000	

<i>Dr.</i>		SUNDRY CREDITORS.				<i>Cr.</i>	
To Realisation A/c ..	..	15,000		By Balance .. ..	..	15,000	

<i>Dr.</i>		RESERVE FUND.				<i>Cr.</i>	
To Sun. Shareholders A/c	..	20,000		By Balance .. ..	..	20,000	

<i>Dr.</i>		SINKING FUND.				<i>Cr.</i>	
To Sun. Shareholders A/c	..	5,000		By Balance .. ..	..	5,000	

Dr.

## EMPLOYEES' SAVINGS BANK DEPOSITS.

Cr.

To Cash (repaid) ..	8,000		By Balance .. ..	8,000	
---------------------	-------	--	------------------	-------	--

Dr.

## PROFIT AND LOSS ACCOUNT.

Cr.

To Sun. Shareholders A/c	3,000		By Balance .. ..	3,000	
--------------------------	-------	--	------------------	-------	--

Dr.

## LAND AND BUILDINGS.

Cr.

To Balance .. ..	150,000		By Realisation A/c ..	150,000	
------------------	---------	--	-----------------------	---------	--

Dr.

## PLANT AND MACHINERY.

Cr.

To Balance .. ..	100,000		By Realisation A/c ..	100,000	
------------------	---------	--	-----------------------	---------	--

Dr.

## GOODWILL.

Cr.

To Balance .. ..	40,000		By Realisation A/c ..	40,000	
------------------	--------	--	-----------------------	--------	--

Dr.

## PATENT RIGHTS.

Cr.

To Balance .. ..	25,000		By Realisation A/c ..	25,000	
------------------	--------	--	-----------------------	--------	--

Dr.

## STOCK.

Cr.

To Balance .. ..	20,000		By Realisation A/c ..	20,000	
------------------	--------	--	-----------------------	--------	--

Dr.

## SUNDRY DEBTORS.

Cr.

To Balance .. ..	36,000		By Realisation A/c ..	36,000	
------------------	--------	--	-----------------------	--------	--

Dr.

## INVESTMENTS ON ACCOUNT OF SINKING FUND.

Cr.

To Balance .. ..	5,000		By Realisation A/c ..	5,000	
------------------	-------	--	-----------------------	-------	--

Dr.

## ABSORPTION EXPENSES.

Cr.

To Cash.. ..	600		By Realisation A/c ..	600	
--------------	-----	--	-----------------------	-----	--

Dr.		REALISATION ACCOUNT.				Cr.	
To Sundry Assets ..	401,000					By Sundry Creditors ..	15,000
" Costs of Absorption	600					" Black Co., Ltd. ..	485,600
" Balance :—							
" "A" Deb. Holders A/c	10,000						
" "B" Deb. Holders A/c	5,000						
Sun. Shareholders A/c	84,000						
	500,600						500,600

Dr.		THE BLACK CO., LTD.				Cr.	
To Realisation A/c ..	485,600					By Cash .. ..	135,600
						" Shares .. ..	240,000
						" Debentures.. ..	110,000
	485,600						485,600

Dr.		BLACK CO. SHARES ACCOUNT.				Cr.	
To The Black Co., Ltd. .	240,000					By Sun. Shareholders A/c	240,000

Dr.		BLACK CO. DEBENTURES ACCOUNT.				Cr.	
To The Black Co., Ltd. .	110,000					By "A" Deb. Holders A/c	110,000

Dr.		" A " DEBENTURE HOLDERS ACCOUNT.				Cr.	
To Black Co. Debs. A/c	110,000					By " A " Debentures ..	100,000
						" Realisation A/c	10,000
						(premium)	
	110,000						110,000

Dr.		" B " DEBENTURE HOLDERS ACCOUNT.				Cr.	
To Cash.. .. .	55,000					By " B " Debentures ..	50,000
						" Realisation A/c	5,000
						(premium)	
	55,000						55,000



Dr.

## SUNDRY SHAREHOLDERS ACCOUNT.

Cr.

To Black Co. Shares A/c	240,000		By Share Capital	..	200,000	
„ Cash.. ..	72,000		„ Reserve Fund	..	20,000	
			„ Sinking Fund	..	5,000	
			„ Profit & Loss A/c	..	3,000	
			„ Realisation A/c	}	84,000	
			(profit) ..			
	312,000				312,000	

The entries in the Black Company's books, in so far as they relate to the above transactions, would be the following—

## JOURNAL.

Dr.

Cr.

Land and Buildings	.. ..	150,000		
Plant and Machinery	.. ..	100,000		
Goodwill	.. ..	139,600		
Patent Rights	.. ..	25,000		
Stock	.. ..	20,000		
Sundry Debtors	.. ..	36,000		
Investments	.. ..	5,000		
Cash at Bank	.. ..	25,000		
To Sundry Creditors	.. ..		15,000	
„ Liquidator of The White Co., Ltd.	.. ..		485,600	
Sundry assets and liabilities taken over from the White Co., as per Agreement dated.....				
Liquidator of The White Co., Ltd.	350,000			
To 5 % Debentures	.. ..		110,000	
„ Share Capital A/c	.. ..		160,000	
„ Premium on Shares A/c	.. ..		80,000	
Discharge of part of the purchase consideration by the issue of Debentures, and of 160,000 Shares of £1 each, credited as fully paid, and valued at the market price of 30/- per share.				

Dr.

## CASH BOOK.

Cr.

Receipts.	Bank.	Payments.	Bank.
		By Liquidator of the White Co., Ltd.	135,600

**Note 1.**—The Premium on Shares may be used to write down the Goodwill, or may be transferred to a Reserve Fund, according to the circumstances of the business.

**Note 2.**—The value of the Goodwill is arrived at as follows—

Purchase Price of Business .. ..	£	485,600
Value of actual Assets taken over .. ..	361,000	
less Liabilities taken over .. ..	15,000	
	<hr/>	346,000
Balance (Goodwill) .. ..		<hr/> <u>£139,600</u>

**Note 3.**—The Black Co. takes over the Sinking Fund Investments merely as ordinary Investments, not as an asset specially ear-marked for some particular Fund. The Sinking Fund will not be brought into its books at all; for it is simply an accumulated profit balance, and, as such, belongs to the shareholders of the White Co.

**Reconstruction of a Company.**—A Company is sometimes reconstructed, that is, a New Company is incorporated with the special object of buying the whole or a part of it. The difference between an absorption and a reconstruction is that the former denotes the sale of a business to an *existing* company, while the latter denotes the sale of a business to a *new* company formed for that special purpose. Another difference is that an absorption generally results in a *profit* to the shareholders, owing to the business transferred being a valuable one; a reconstruction, on the other hand, usually entails a *loss* to the shareholders, the company being, as a rule, in a bad way financially, and having a big balance to the debit of Profit and Loss. Where a Company has lost capital, the reconstruction scheme may provide for the payment of the creditors, either by a cash composition, or by means of shares or debentures in the new company. It may also provide for the raising of fresh Capital, by the issue of partly-paid shares in exchange for shares of the old company, the new company being then able to call up the balance due on the shares and thus obtain working capital for the business. Shareholders, however, cannot be compelled to agree to the scheme of reconstruction, or to take shares with a liability attaching. And should any of them dissent, the liquidator must purchase their interest at a price to be fixed either by agreement or arbitration.

**Example.**—The Gem Co., Ltd., went into voluntary liquidation, the shareholders and creditors having agreed to

a scheme of reconstruction. The following was the position of affairs at the date of reconstruction—

## BALANCE SHEET OF THE GEM CO., LTD.

Capital and Liabilities.		Property and Assets.	
Share Capital :—		Plant and Machinery .. ..	100,000
150,000 Shares of £1 each,		Goodwill .. ..	20,000
fully paid .. ..	150,000	Stock-in-Trade .. ..	25,000
Trade Creditors .. ..	40,000	Sundry Debtors .. ..	24,500
Loan Creditors .. ..	20,000	Cash at Bank .. ..	500
		Profit & Loss A/c—Dr. bal. ..	40,000
	210,000		210,000

The provisions of the scheme of reconstruction were *inter alia*—

(1) That a New Company be formed with a capital of £200,000, in shares of £1 each, to take over from the Old Company the Debtors and Stock at their book value, and the Plant and Machinery at its reduced value after reconstruction, the Cash to be used to defray the reconstruction expenses which amounted to £500.

(2) The New Company to discharge the Trade Creditors by a Cash composition of 12s. 6d. in the £, and to pay off the Loan Creditors by the issue of Debentures for the amount of the Loans plus a bonus of 5 per cent.

(3) The Shareholders to receive £75,000 in Shares of the New Company, credited with 10s. per share paid up, and a call of 5s. per share to be made forthwith.

Make the necessary entries in the books of both companies, and show the Balance Sheet of the Company after reconstruction.

The entries in the Old Company's books would be as follows—

JOURNAL.		Dr.	Cr.
Share Capital A/c .. ..	150,000		
To Sundry Shareholders A/c ..			150,000
Balance transferred.			
Realisation A/c .. ..	209,500		
To Plant and Machinery ..			100,000
„ Goodwill .. ..			20,000
„ Stock .. ..			25,000
„ Sundry Debtors .. ..			24,500
„ Profit and Loss .. ..			40,000
Balances transferred.			

JOURNAL—*continued.*

Dr.

Cr.

Realisation A/c .. .. .	500			
To Reconstruction Expenses ..			500	
Balance transferred.				
Trade Creditors .. .. .	15,000			
To Realisation A/c .. .. .			15,000	
Balance, after payment of composition, transferred.				
New Co., Ltd. .. .. .	121,000			
To Loan Creditors (bonus) ..			1,000	
„ Realisation A/c .. .. .			120,000	
Purchase price of business as per Agreement dated.....				
Sundry Shareholders .. .. .	75,000			
To Realisation A/c .. .. .			75,000	
Loss on realisation transferred.				
New Co. Shares .. .. .	75,000			
New Co. Debentures .. .. .	21,000			
To New Co., Ltd. .. .. .			96,000	
Receipt of Shares and Debentures in part payment of purchase price of business.				
Sundry Shareholders A/c .. ..	75,000			
To New Co. Shares A/c .. ..			75,000	
Issue of 150,000 new Shares of £1 each, credited with 10/- per share paid, in exchange for shares of the old Co.				
Loan Creditors .. .. .	21,000			
To New Co. Debentures A/c ..			21,000	
Issue of Debentures in satisfaction of Loans and 5 % bonus.				

Dr.

## CASH BOOK.

Cr.

Receipts.	Bank.	Payments.	Bank.
To Balance .. .. .	500	By Reconstruction Expenses ..	500
„ New Co., Ltd. .. ..	25,000	„ Trade Creditors (Cash composition of 12/6 in the £ on £40,000)	25,000
	25,500		25,500

## LEDGER (PRINCIPAL ACCOUNTS).

<i>Dr.</i>		REALISATION ACCOUNT.		<i>Cr.</i>	
To Sundry debit balances .. ..	209,500		By Trade Creditors (balance) .. ..	15,000	
„ Reconstruction Expenses .. ..	500		„ New Co., Ltd. .. ..	120,000	
			„ Sun. Shareholders (loss) .. ..	75,000	
	<u>210,000</u>			<u>210,000</u>	

<i>Dr.</i>		TRADE CREDITORS.		<i>Cr.</i>	
To Cash (composition of 12/6 in the £)	25,000		By Balance .. ..	40,000	
„ Balance to Realisation A/c ..	15,000				
	<u>40,000</u>			<u>40,000</u>	

<i>Dr.</i>		LOAN CREDITORS.		<i>Cr.</i>	
To New Co. Debentures A/c .. ..	21,000		By Balance .. ..	20,000	
			„ New Co., Ltd., Bonus of 5 % ..	1,000	
	<u>21,000</u>			<u>21,000</u>	

<i>Dr.</i>		NEW CO., LTD.		<i>Cr.</i>	
To Realisation A/c & Trade Creditors ..	121,000		By Cash .. ..	25,000	
			„ Shares .. ..	75,000	
			„ Debentures .. ..	21,000	
	<u>121,000</u>			<u>121,000</u>	

The entries in the New Company's books would be as follows—

JOURNAL.		<i>Dr.</i>	<i>Cr.</i>
Plant and Machinery <sup>1</sup> .. ..	71,500		
Stock .. ..	25,000		
Sundry Debtors .. ..	24,500		
To Liquidator Gem Co., Ltd. .			121,000
Sundry assets taken over as per Agreement dated .....			

<sup>1</sup> The adjusted value of the Plant and Machinery is arrived at by taking the difference between the purchase price and the total of the other two assets.

JOURNAL—*continued.*

Dr

Cr.

Liquidator Gem Co., Ltd. ..	96,000				
To Debentures A/c .. ..				21,000	
To Share Capital A/c .. ..				75,000	
Issue of Debentures, and of 150,000 Shares of £1 each, credited with 10/- per share paid, in part payment of pur- chase price of business.					
First Call A/c .. ..	37,500				
To Share Capital .. ..				37,500	
5/- per share on 150,000 shares, as per scheme of reconstruction.					

Dr.

## CASH BOOK.

Cr.

Receipts.	Bank.	Payments.	Bank.
To First Call A/c .. ..	37,500	By Liquidator Gem Co., Ltd.,	25,000

## BALANCE SHEET OF THE NEW GEM CO., LTD.

Capital and Liabilities.		Property and Assets.	
Nominal Capital :—		Plant and Machinery ..	71,500
200,000 Shares of		Stock .. ..	25,000
£1 each .. ..	£200,000	Sundry Debtors .. ..	24,500
Issued Capital :—		Cash at Bank .. ..	12,500
150,000 Shares of £1 each,			
15/- per share paid ..	112,500		
Debentures .. ..	21,000		
	133,500		133,500

**Nominal, Unissued, and Uncalled Capital shown in the Books.**—In the Colonies, and also with some British Companies, it is the practice to open accounts in the Ledger to record not only the Issued and Called-up Capital, but the Nominal, Unissued, and Uncalled Capital as well.

**Example.**—A Limited Company was formed with a Registered Capital of £200,000 in £1 shares. Of these shares, 50,000 were issued to the vendor, as fully paid, in part discharge of the purchase price of the business; and 50,000 were subscribed by the public, payable 2s. 6d. per share on application, 2s. 6d. on allotment, and 5s. on a first call. The





<i>Dr.</i>		UNCALLED CAPITAL.				<i>Cr.</i>	
To Unallotted Shares ..	50,000			By Application A/c ..	6,250		
				„ Allotment A/c ..	6,250		
				„ First Call A/c ..	12,500		
	50,000				25,000		

<i>Dr.</i>		FIRST CALL ACCOUNT.				<i>Cr.</i>	
To Uncalled Capital ..	12,500			By Cash . ..	12,475		

## BALANCE SHEET.

*Capital and Liabilities.*

Nominal Capital :—							
200,000 shares of £1 each ..	200,000						
less Unallotted Shares—							
100,000 shares of £1 each ..	100,000						
Issued Capital .. ..	100,000						
less Uncalled Capital—							
10/- per share on 50,000 shares .	25,000						
Called-up Capital .. ..	75,000						
less Calls in Arrear .. ..	25						
Paid-up Capital .. ..						74,975	

When a company has different kinds of shares, then separate accounts must be opened for each kind, thus—Unallotted Preference Shares, Unallotted Ordinary Shares, Uncalled Preference Capital, Uncalled Ordinary Capital, etc.

**Accounts and Balance Sheet of a Limited Company.**—Table A of the Companies (Consolidation) Act, 1908, enacts as follows—

## ACCOUNTS.

103. The directors shall cause true accounts to be kept—

Of the sums of money received and expended by the Company and

the matter in respect of which such receipt and expenditure takes place, and

Of the assets and liabilities of the Company.

104. The books of account shall be kept at the registered office of the Company, or at such other place or places as the directors think fit, and shall always be open to the inspection of the directors.

105. The directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of members not being directors, and no member (not being a director) shall have any right of inspecting any account or book or document of the Company except as conferred by statute or authorised by the directors or by the Company in general meeting.

106. Once at least in every year the directors shall lay before the Company in general meeting a Profit and Loss Account for the period since the preceding account, or (in the case of the first account) since the incorporation of the Company, made up to a date not more than six months before such meeting.

107. A Balance Sheet shall be made out in every year and laid before the Company in general meeting made up to a date not more than six months before such meeting. The Balance Sheet shall be accompanied by a Report of the directors as to the state of the Company's affairs, and the amount which they recommend to be paid by way of dividend, and the amount, if any, which they propose to carry to a Reserve Fund.

108. A copy of the Balance Sheet and Report shall, seven days previously to the meeting, be sent to the persons entitled to receive notices of general meetings in the manner in which notices are to be given hereunder (*i.e.*, by post to their registered address, or personally, or by advertisement in a newspaper).

Table A of the Companies Act, 1862, prescribed a form of Balance Sheet for Limited Companies, which has consequently been adopted by such companies for a number of years. It is not included in Table A of the 1908 Act; but, as the old statutory form of Balance Sheet is, however, still so largely followed by Limited Companies, it has been thought advisable to give a facsimile of it on the next page.

**Special Documents of a Limited Company.**—Under this heading are included Application Form for Shares, Letter of Allotment, Letter of Regret, Return of Allotments, Notice of Call or Call Letter. Copies of these are given here. Others, such as Share Certificate, Share Warrant, Debenture Bond, Transfer, etc., will be found in their appropriate alphabetical section.

BALANCE SHEET OF THE ..... COMPANY, LIMITED,  
MADE UP TO THE ..... DAY OF ....., 19..

Capital and Liabilities.		Property and Assets.	
I. Capital.		III. Property held by the Company.	
Showing:—		Showing:—	
1 The number of Shares .. ..	£ s. d.	7 Immovable Property, distinguishing—	£ s. d.
2 The amount paid per Share .. ..	£ s. d.	(a) Freehold Land .. ..	£ s. d.
3 If any arrears of Calls, the nature of the arrears and the names of the defaulters .. ..	£ s. d.	(b) " Buildings .. ..	£ s. d.
4 The particulars of any Forfeited Shares .. ..	£ s. d.	(c) Leasehold .. ..	£ s. d.
Showing:—		Movable Property, distinguishing—	
5 The amount of Loans on Mortgages or Debenture Bonds .. ..	£ s. d.	(d) Stock-in-Trade .. ..	£ s. d.
6 The amount of Debts owing by the Company, distinguishing—	£ s. d.	(e) Plant .. ..	£ s. d.
(a) Debts for which acceptances have been given .. ..	£ s. d.	The cost to be stated, with deductions for deterioration in value as charged to the Reserve Fund or Profit and Loss .. ..	
(b) Debts to tradesmen for supplies of stock-in-trade or other articles .. ..	£ s. d.	Showing:—	
(c) Debts for Law Expenses .. ..	£ s. d.	Debts considered good for which the Company hold bills or other securities .. ..	
(d) Debts for Interest on Debentures or other Loans .. ..	£ s. d.	Debts considered good for which the Company hold no security .. ..	
(e) Unclaimed Dividends .. ..	£ s. d.	Debts considered doubtful and bad .. ..	
(f) Debts not enumerated above .. ..	£ s. d.	Any debt due from a Director or other officer of the Company to be separately stated .. ..	
Showing:—		Showing:—	
The amount set aside from profits to meet contingencies .. ..		The nature of Investment and rate of Interest .. ..	
Showing:—		The amount of Cash, where lodged, and if bearing Interest .. ..	
The disposal balance for payment of Dividend, etc. .. ..			
Claims against the Company not acknowledged as debts .. ..			
Moneys for which the Company is contingently liable .. ..			
II. Debts and Liabilities of the Company.		IV. Debts owing to the Company.	
VI. Reserve Fund.		V. Cash and Investments.	
VII. Profit and Loss.			
Contingent Liabilities.			

**RETROP MANUFACTURING COMPANY, LIMITED.**

(Incorporated under the Companies Acts, 1908 to 1917.)

ISSUE OF 100,000 PREFERENCE SHARES OF £1 EACH AT PAR.

**FORM OF APPLICATION.***To the Directors of the***RETROP MANUFACTURING COMPANY, LIMITED.**

Gentlemen,

Having paid to your Bankers the sum of £....., being a deposit of 2/6 per Share on.....Preference Shares of £1 each, I agree to purchase that number of the said shares, or any smaller number that you may allot to me, upon the terms of the Prospectus dated 4th November, 19.., and to pay the balance of the purchase money by the instalments specified in the said Prospectus, and I authorise you to place my name on the Register of Members as the registered holder of the said Preference Shares.

*Signature*.....*Name in full*.....

(State whether "Mr.," "Mrs.," or "Miss," and title, if any.)

*Address in full*.....*Occupation*.....*Date*.....19..

This form should be filled up and forwarded ENTIRE, together with the deposit of 2/6 per Share on the number of Shares applied for, to the Company's Bankers, THE SAFE BANK, LIMITED, HILLCORN, LONDON, E.C.

A separate Cheque must accompany each application.

**RETROP MANUFACTURING COMPANY, LIMITED.****BANKERS' RECEIPT.**

No.....

RECEIVED this.....day of....., 19..  
from.....  
the sum of.....  
for the credit of the RETROP MANUFACTURING COMPANY,  
LIMITED, being a deposit of 2/6 per share on.....Preference  
Shares of £1 each in the above-named Company.

For THE SAFE BANK, LIMITED,

£ : : .....

Stamp. ....

*Cashier.*

This Receipt, when returned by the Bankers, must be preserved and exchanged in due course for share Certificate.

RETROP MANUFACTURING COMPANY, LIMITED.

(Incorporated under the Companies Acts, 1908 to 1917.)

LETTER OF ALLOTMENT.

No.....

Registered Office,

.....19..

£5 or over, 6d.

Stamp.

under £5, 1d.

Sir or Madam,

In accordance with your application for Shares in the above Company, I beg to inform you that the Directors have allotted you .....Preference Shares of £1 each.

The amount payable on application and allotment in respect of the said Shares is

You have paid on application

Balance due from you

£ : :

£ : :

£ : :

which sum must be paid to the Company's Bankers, THE SAFE BANK, LIMITED, Hillcorn, London, E.C., on or before the..... instant.

Yours faithfully,

To.....

.....

.....

Secretary.

This form must be forwarded ENTIRE, together with remittance to the Company's Bankers.

.....

RETROP MANUFACTURING COMPANY, LIMITED.

BANKERS' RECEIPT.

RECEIVED this.....day of....., 19....

from.....

the sum of.....

being.....per Share payable on allotment of.....Preference Shares of £.....each in the above Company.

For THE SAFE BANK, LIMITED.

Stamp.

£ : :

Cashier.

This Receipt, when returned by the Bankers, must be preserved and exchanged in due course for Share Certificate.



**RETROP MANUFACTURING COMPANY, LIMITED.**

(Incorporated under the Companies Acts, 1908 to 1917.)

## LETTER OF REGRET

No.....

*Registered Office,*

.....19..

Sir or Madam,

With reference to your application for Shares in the above Company, I beg to inform you that owing to the over-subscription of same, the Directors regret they are unable to make you any allotment.

I enclose herewith a cheque for £        :        , being the amount deposited by you on application for the said shares, and shall be obliged if you will kindly sign and return the Receipt at the foot of this form.

Yours faithfully,

To.....

• • • • •

• • • • •

• • • • •

Secretary.

• • • • •

• • • • •

**RETROP MANUFACTURING COMPANY, LIMITED.**

## RECEIPT.

No.....

Date.....19..

RECEIVED of the above-named Company the sum of.....  
....., being refund of amount paid on  
application for.....Preference Shares in the above Company not  
allotted.

Signature . . . . .

Stamp.

.....

£                    :

Certificate No.....

THE COMPANIES ACTS, 1908 TO 1917.



RETURN OF ALLOTMENTS from the .....  
day of....., 19.., to the .....  
day of....., 19.., of.....  
....., Limited.

Made pursuant to Section 88 (1) of the Act.  
(To be filed with the Registrar within one month after the allotment is made.)

<sup>1</sup> Number of Shares allotted payable in Cash .....  
" " " " " .....  
Nominal amount of the shares so allotted .....  
" " " " " .....  
Amount paid or due and payable on each such share .....  
" " " " " .....  
Number of Shares allotted for a consideration other than Cash.....  
" " " " " .....  
Nominal amount of the shares so allotted .....  
" " " " " .....  
Amount to be treated as paid on each such share.....  
" " " " " .....  
The consideration for which such shares have been allotted is as follows :—

.....  
.....  
.....

<sup>1</sup> Distinguish between Ordinary, Preference, Deferred, etc.

NAMES, ADDRESSES, AND DESCRIPTIONS OF THE ALLOTTEES.

Surname.	Christian Name.	Address.	Description.	Number of Shares Allotted.		
				Ordinary.	Preference.	Deferred.

Signature.....  
Secretary.

**RETROP MANUFACTURING COMPANY, LIMITED.**

(Incorporated under the Companies Acts, 1908 to 1917.)

**NOTICE OF CALL.**

**FIRST CALL OF 5/- per SHARE on PREFERENCE SHARES.**  
(Making.....per share called up.)

No.....*Registered Office,*  
....., 19..

Sir or Madam,

I beg to give you notice that a First Call of 5/- per share on the Preference Shares has been made by the Board of Directors in accordance with the terms of the Prospectus.

The amount payable by you in respect of the.....shares in this Company of which you are the registered holder is £ : : , and I have to request that you will be good enough to pay this sum to the Company's Bankers, **THE SAFE BANK, LIMITED, HILLCORN, LONDON, E.C.**, on or before the.....instant.

Yours faithfully,

To .....  
.....  
.....  
.....  
.....  
*Secretary.*

This form must be forwarded **ENTIRE**, together with remittance, to the Company's Bankers.

.....

**RETROP MANUFACTURING COMPANY, LIMITED.**

**BANKERS' RECEIPT.**

No.....

RECEIVED this.....day of....., 19..,  
from.....  
the sum of .....  
being 5/- per share payable on First Call on.....Preference  
Shares in the above Company.

For THE SAFE BANK, LIMITED,

£ : :

---

*Stamp.*

*Cashier.*

.....

This Receipt, when returned by the Bankers, must be preserved and exchanged in due course for share certificate.





**Rulings of Statistical Books.** Specimens are given on pages 255 and 256 of the Application and Allotment Book, and the Call Book. Others, such as Share Ledger, Stock Ledger, Debenture Ledger, Transfer Register, Mortgage Register, etc., will be found under their respective headings.

**COMPENSATING ERROR.**—(See ERROR.)

**COMPOSITION.**—(See BAD DEBTS.)

**CONSIGNMENT.**—Consignments are of two kinds: Inwards and Outwards.

**CONSIGNMENT INWARDS.**—An Inwards Consignment is the receipt of a quantity of goods (*consignment*) by a person (*consignee*) in this country from a person (*consignor*) in some country or place abroad, for the purpose of sale, the seller's remuneration (*commission*) being a certain percentage on the amount for which the goods are sold. In fact, an Inwards Consignment is simply the other side of the Outwards Consignment, that is, as it appears in the books of the consignee.

**Difference between an Inwards Consignment and a Purchase of Goods.**—When we buy goods of a person, the property in them passes to us; and the person from whom we bought them becomes our *creditor*, and we owe him the money for the goods. But when we receive a consignment, the ownership of the goods does not vest in us, but remains in the consignor. We are, therefore, merely his *agent*; we do not owe him for the goods, for we have not bought them, but only agreed to take charge of them and try and sell them for him. Again, when we purchase goods, they are not returnable if they cannot be sold. But, with a consignment inwards, we may return the goods if we cannot sell them.

**Difference between a Consignment Inwards and an Ordinary Sale of Goods on Commission.**—As regards a Consignment Inwards, we receive possession of the goods to be sold, and on selling any of them, we record the sale in our books, opening a Ledger account for the particular debtor if the goods have been sold on credit. In the other case, we do not receive possession of the goods, but simply sell from samples. And on effecting a sale, we pass the order on to the principal, booking up merely our commission, together with any expenses paid out for postage or carriage of samples, etc.

**First Method of Dealing with a Consignment Inwards.**—There are two methods in vogue with respect to the



treatment of an Inwards Consignment in the books of the consignee. When we receive the goods we should, theoretically, make no entry in the financial books; because, not having contracted a liability we cannot logically book up one. According to the first way, therefore, when the goods are received, no entry is made in the books of account, the record being passed through a memorandum book, called "**Consignment Inwards Book**" or "**Consignment Stock Book**," the receipt of the goods being duly acknowledged. On the arrival of the goods, various sums of money may have to be paid out for dock dues, customs duties, unloading and cartage, fire insurance, etc., also for freight and marine insurance, if these have not been paid by the consignor. If the consignment is received into our own business premises, the goods must be kept separate from our own stock. Sometimes the consignee has not sufficient room in his own warehouse to store the goods, and has temporarily to rent a separate warehouse, or pay for storage elsewhere. All these expenses will be entered on the credit side of the Cash Book and posted to the debit of the personal account of the consignor. Students should note that with this method—by far the more usual—the term "Consignment" is never used in any of the books for a Consignment Inwards, all entries going through a personal account, either that of the person to whom we have sold the goods, or that of the person from whom we received the goods. After taking possession of the goods, we may send the consignor a sum of money as an **Advance** against the consignment, or he may draw on us for the same purpose. If the sales of the consignment are made on credit, the transactions are journalised, the purchaser being debited and the consignor credited. If the goods are sold for cash, the money will be entered on the receipts' side of the Cash Book, "*To Consignor*," and posted to the credit of his account, as the money will belong to him. When the goods are all sold, a further Journal entry is made, debiting the consignor's account and crediting a **Commission Account** with the commission due to us. We then forward to the consignor an **Account Sales**, giving him particulars of what the goods have been sold for, deducting our expenses and commission and any advance or remittance on account, and showing the balance still due to him. In settlement of this balance, we may purchase and send him a bank draft payable on demand or at a future date, or a bill payable in the

consignor's place of business ; or we may let the consignor draw on us.

**Second Method of Dealing with a Consignment Inwards.**—In many cases, especially when the consignment is of considerable value, some record is felt to be necessary in the financial books, a memorandum being deemed insufficient and unsatisfactory. A "**Consignment Inwards Account**" is, therefore, opened and debited with the invoice value of the goods, and the same amount posted to the credit of the personal account of the consignor. This is, of course, a direct violation of principle, as the relationship of debtor and creditor does not as yet exist between the two parties to the consignment. The Consignment Inwards Account is credited with the sales of the goods, while the expenses and commission are debited to the consignor's personal account. When the goods are all sold, the balance of the Consignment Inwards Account, called the *gross profit*, is carried to the consignor's account. This personal account is then closed by being debited with the draft or bill forwarded in settlement of the amount owing. It should be mentioned, however, that accountants are by no means agreed as to the best way of dealing with the expenses on the consignment. Some debit them to the personal account of the consignor, keeping the Consignment Inwards Account as a Goods Account, as explained above ; others prefer to charge the expenses and commission to the Consignment Inwards Account, the final balance of which, called the *net profit*, is transferred to the consignor's personal account. A little reflection, however, will show that the terms "gross" and "net" profit are, in these instances, far from appropriate. It is hardly our business to concern ourselves with the consignor's profits at all ; and since he has kept the original cost of the goods secret by invoicing them to us at *pro formâ* or minimum prices, it follows that the *apparent* gross and net profits of the consignment, as shown by our books, and the *actual* gross and net profits, as shown by the consignor's books, may be widely different.

**Sales of the Consignment Inwards not to be Entered in the Sales Book.**—When we sell any of the consignor's goods, such sales must *not* be entered in the ordinary Sales Book, as is thoughtlessly done by so many students. The Sales Book is kept to record simply the sales of our own goods, and we must not mix up the sales of other people's goods

with ours. The requisite entries are, therefore, passed through the Journal if the consignment goods are sold on credit, and through the Cash Book if sold for ready money.

**Taking some of the Consignment Inwards for our own Business.**—Should we take any of the goods pertaining to the consignment into stock for own use, this is equivalent to a purchase by us, and may either be journalised or entered in the Purchases Book in the ordinary way. Students must remember that this will count as a *sale* by us when we come to reckon up the total sales for the purpose of calculating our commission.

**Rendering the Account Sales.**—When part of the goods has been sold, we may send the consignor an Account Sales for this particular part, or simply forward him a remittance on account, and render the Account Sales only when the whole of the goods have been disposed of. When *we* render an Account Sales, it will really be a copy of our Ledger account or accounts with the consignor, giving him particulars of what the goods have realised, and of the various expenses and commission in connection with the consignment.

**Example 1.**—Received Consignment of Goods from Smith & Co., valued at £800. Paid Customs Duties £25, Landing Charges and Carriage £10 11s. 6d., Fire Insurance £10. Sent Smith & Co. an Advance of £250. Sold part of Smith & Co.'s goods to Jones Bros. for £400, and the remainder for cash £650. Charged Smith & Co. agent's commission 5 per cent., and *del credere* commission  $2\frac{1}{2}$  per cent. Paid Brokerage 2 per cent., £21. Sent Smith & Co. Account Sales, and Sight Draft for balance due. Make the necessary Journal and Cash Book entries, and show also the Ledger accounts.

Dr.		CASH BOOK.		Cr.	
Receipts.		Bank.	Payments.	Bank.	
To Smith & Co. . . . .	650		By Smith & Co. (Custom Duties) .	25	
			" do. (Landing & Carriage) .	10	11 6
			" do. (Fire Insurance) . .	10	
			" do. (Advance) . .	250	
			" do. (Brokerage) . .	21	
			" do. (Sight Draft) . .	654	13 6

JOURNAL.		Dr.		Cr.	
Jones Bros. .. .. .	400				
To Smith & Co. .. .. .				400	
Sale of part of the Inwards Consigt.					
Smith & Co. .. .. .	78	15			
To Commission .. .. .				78	15
5% Agent's Commission on £1,050 Sales					
2½% Del Credere .. .. .					

## LEDGER.

Dr.		SMITH & CO.		Cr.	
To Cash (Custom Duties) ..	25			By Cash .. .. .	650
" " (Carriage, etc.) ..	10	11	6	" Jones Bros. .. ..	400
" " (Fire Insurance) ..	10				
" " (Advance) ..	250				
" " (Brokerage) ..	21				
" Commission ..	78	15			
" Cash (Sight Draft) ..	654	13	6		
	1,050				1,050

**Example 2.**—Received Consignment of goods from P. Robinson, invoiced together with Freight and Marine Insurance charges at £950. Paid Landing and Carriage £19 10s. 6d., Warehousing £15, and Fire Insurance £9. Robinson drew on us at two months for £200 as an Advance against consignment. Sold part of Robinson's goods to F. Smith for £350, part for cash £350, took part into stock for my own use £300, the remainder £200 being unsold. Paid Auctioneer's Fees £10 10s., Auction Room Expenses (printing, stationery, etc.) £5 11s. 6d., and Brokerage £7. Charged Robinson 5 per cent. Commission on Sales. Forwarded him Account Sales, and Draft at two months for the amount due. Make the necessary entries in the Cash Book, Journal, etc., and show also the Ledger accounts.

## First Way—

Dr.		CASH BOOK.		Cr.	
Receipts.		Bank.		Payments.	
To P. Robinson .. .. .	350			By P. Robinson (Carriage, etc.) ..	19 10 6
				" do. (Warehousing) ..	15
				" do. (Fire Insurance) ..	9
				" do. (Auctioneer's Fees) ..	10 10
				" do. (Auction Room Exs.) ..	5 11 6
				" do. (Brokerage) ..	7

## PURCHASES BOOK.

P. Robinson .. .. .					
Goods from Consignment .. ..				300	

## JOURNAL.

Dr.

Cr.

F. Smith .. .. .	350				
To P. Robinson .. .. .				350	
Sale of part of the Inwards Consignment.					
P. Robinson .. .. .	50				
To Commission .. .. .				50	
5 % on Sales of Inwards Consignment, £1,000.					

## BILLS PAYABLE BOOK.

Date given.	To whom given.	Amount of Bill.			Date of Bill.	Term.	Due Date.
	P. Robinson	200	0	0		2 mos.	
	P. Robinson	683	8	0		2 mos.	

## LEDGER.

Dr.

P. ROBINSON.

Cr.

To Cash (Carriage, etc.) ..	19	10	6	By Cash .. .. .	350	
" " (Warehousing) ..	15			" F. Smith .. .. .	350	
" " (Fire Insurance) ..	9			" Purchases A/c	300	
" Bill Payable .. .. .	200			or Goods .. .. .		
" Cash (Auctioneer's Fees)	10	10				
" " (Auction Rm. Exs.)	5	11	6			
" " (Brokerage) .. ..	7					
" Commission .. .. .	50					
" Bill Payable .. .. .	683	8				
	1,000				1,000	

## Second Way—

## LEDGER.

Dr.

CONSIGNMENT INWARDS.

Cr.

To P. Robinson .. .. .	950			By Cash .. .. .	350	
" Balance (gross profit) transferred to P. Robinson's A/c	250			" F. Smith .. .. .	350	
				" Purchases A/c	300	
				or Goods .. .. .		
				" Stock unsold .. .. c/d	200	
	1,200				1,200	
To Balance .. b/d	200					

Dr.		P. ROBINSON.		Cr.	
To Cash (Carriage, etc.) ..	19	10	6	By Consignment A/c ..	950
" " (Warehousing) ..	15			" " " (gross	
" " (Fire Insurance) ..	9			profit) ..	250
" Bill Payable ..	200				
" Cash (Auctioneer's Fees)	10	10			
" " (Auction Rm. Exs.) ..	5	11	6		
" " (Brokerage) ..	7				
" Commission ..	50				
" Bill Payable ..	683	8			
" Balance (Stock unsold)					
c/d	200				
	1,200				1,200
				By Balance .. b/d	200

Or,

Dr.		CONSIGNMENT INWARDS.		Cr.	
To P. Robinson ..	950			By Cash ..	350
" Cash (Carriage, etc.) ..	19	10	6	" F. Smith ..	350
" " (Warehousing) ..	15			" Purchases A/c	
" " (Fire Insurance) ..	9			or Goods ..	300
" " (Auctioneer's Fees)	10	10		" Stock unsold .. c/d	200
" " (Auction Rm. Exs.) ..	5	11	6		
" " (Brokerage) ..	7				
" Commission ..	50				
" Balance (net profit)					
" transferred to P.	133	8			
Robinson's A/c					
	1,200				1,200
To Balance .. b/d	200				

Dr.		P. ROBINSON.		Cr.	
To Bill Payable (Advance)	200			By Consignment A/c ..	950
" Bill Payable ..	683	8		" " " (net	
" Balance (Stock				profit) ..	133
unsold) .. } c/d	200				8
	1,083	8			1,083
				By Balance .. b/d	200

**Inwards Consignment on Balance Sheet.**—By the First Method an Inwards Consignment will not appear on the Balance Sheet at all, as it will never be entered in the books. If the goods are still unsold at balancing time, however, any advance that has been made, together with the expenses up to the date of balancing, will be shown on the Assets' side, thus (Example 2)—



## BALANCE SHEET.

<i>Liabilities.</i>				<i>Assets.</i>			
				P. Robinson—			
				(Advance and Expenses on			
				Inwards Consignment)	..	243	10 6

## Second Method—

## BALANCE SHEET.

<i>Liabilities.</i>				<i>Assets.</i>			
P. Robinson .. ..	950			Consignment Inwards..	950		
less Advance and Expenses on							
Consignment Inwards ..	243	10	6				
			706			9	6

As it is, however, owing to part of the stock being unsold, we shall have the following entries—

## BALANCE SHEET.

<i>Liabilities.</i>				<i>Assets.</i>			
P. Robinson .. ..	200			Consignment Inwards .. ..	200		

**CONSIGNMENT (JOINT).**—(See **JOINT ACCOUNT.**)

**CONSIGNMENT OUTWARDS.**—An Outwards Consignment is the despatch of a quantity of goods from this country to some country or place abroad for the purpose of sale, the seller being remunerated by means of a small percentage, called **commission**, on the amount for which the goods are sold. The person who sends out the goods is known as the **consignor**, the person to whom the goods are sent is termed the **consignee**, while the goods themselves form the **consignment**.

**Difference between a Consignment and a Sale.**—There are two differences between a consignment of goods and a sale of goods. When we sell goods to a person, the property in the goods passes to that person, who becomes our debtor and owes us the money for the goods. But when we consign goods to a person, the ownership of the goods does not pass to that person, but remains in the consignor; hence the consignee is not our *debtor*, but merely our *agent*. He does not owe us for the goods, as he has not bought them, but only agreed to take them into stock and try and sell them for us.

Another difference is that in a consignment of goods the goods are returnable if they cannot be marketed; but in a sale of goods they are *not* returnable, except for some very special reason, such as the goods being damaged or of the wrong kind.

**Pro Formâ Invoice.**—When the goods are despatched, a *pro formâ* invoice is sent with them giving particulars of the goods; namely, description, number or quantity, weight, prices, marking, packing, etc. The goods are dealt with in the consignor's books at cost, but are generally invoiced to the consignee at a certain percentage above cost. In such cases the consignee may sell the goods at the invoice price, which represents the minimum price, or at as high a price as he can obtain, being induced to do this by the offer of a commission of so much per cent. on the actual amount of the sale; so that the more he sells the goods for, the greater his commission. He may not, however, sell the goods below the invoice price without previous reference to the consignor. The latter would consent to this only in the case of adverse market conditions, and then, probably, only if the loss on the sale were less than the expense of having the goods sent back. If credit is taken in the books for any profit before it is realised—and this is the case when goods are entered up at *pro formâ* prices—such profit must, at balancing time, be transferred to a "Consignment Suspense Account" if the goods are still unsold. It is much better, however, *not* to anticipate the profit, as market conditions change very suddenly at times, and might easily convert the expected profit into an unexpected loss.

**Expenses on Consignment.**—In sending goods abroad, certain expenses will be incurred. There will be carriage to the dock, and dock dues, the shipping company will charge freight, and the goods will require to be insured against loss at sea. All expenses on the consignment must be kept separate from the other business expenses and posted to the Consignment Account, in order that we may be able to find the exact profit on the consignment itself. These expenses will be debited to the Consignment Account through the consignor's Cash Book if they are paid, or through the Journal if they are not paid, thus—

Consignment Account	Dr.
To Railway Co. (carriage)	Cr.
,, Shipping Co. (freight)	Cr.
,, Insurance Co. (insurance)	Cr.

When the goods arrive at their destination there will be further expenses to defray, namely, dock dues, unloading and carting charges, fire insurance, and possibly warehouse or storage rent. If the goods are sold in lots by public auction, then auctioneer's fees, and auction room expenses, printing, stationery, advertising, etc.—all these charges will have to be met; or if the sale is effected through a broker, then there will be the claim for brokerage to discharge. These expenses will be paid by the consignee, and debited in his books to the consignor. When settling with the consignor, the consignee will deduct these charges, and also his commission, from the proceeds of the sale, and remit only the balance, less, of course, any advance or remittance on account. In this way he recovers the money he has disbursed and, at the same time, obtains his commission. The student must remember that the commission is charged on the *gross* amount of the sale, that is, before any expenses are taken into consideration.

**Special Consignment Books and Marks.**—When consignments are very numerous a separate **Consignment Day Book** and **Consignment Ledger** are kept, the total of the Consignment Day Book being credited monthly to a "Goods on Consignment Account" in the General Ledger. For the sake of distinction, the name of the consignee is sometimes entered in the Ledger, and sometimes the name of the place to which the goods have been sent, as, for example, "*Consignment to A. Brown,*" or "*Consignment to Capetown.*" But if there are several to the same person and place, it is obvious that this means of differentiating will not be adequate. For better identification and greater facility of reference, each consignment, in such cases, receives a special distinguishing number similar to the plan adopted with contracts.

**Advances on Consignments.**—It is usual for the consignee to remit a certain sum of money as an advance against the consignment. This is not a part payment of the consignment, because no part of the goods is as yet sold. It is simply an advance by way of security for the large amount of goods that has been sent to the consignee. Instead of sending over money from himself or through his London agent, he may arrange for the consignor to draw a bill on him at one month, or two months, according to circumstances. Advances and remittances on account should always be posted to the personal account of the consignee, and *not* to the Consignment Account.

**Bills drawn against Consignments.**—In some cases it is usual for the consignor to draw a bill on the consignee for the value of the consignment, or for the greater part of it, and to discount or sell such bill, so that he may not be prevented from having the use of the money until the goods are actually sold and paid for. The bill is discounted or sold to a bank having a branch or agent in the consignee's place of business. The bill is drawn in a set of three vias, and is a **documentary bill**; for the bankers require the invoice, bill of lading, insurance policy, and letter of hypothecation to be attached to the bill as security against dishonour by non-acceptance or non-payment. They then forward the bill with the accompanying documents to their branch or agent at the place of destination of the consignment. If the drawer of the bill is a well-known trader of sound financial standing, or if the consignee himself is held in good local repute, the banker's agent will probably surrender the documents on the consignee accepting the bill. Otherwise, before parting with the bill of lading, etc., the representative of the bank will require not only acceptance but payment of the bill, allowing, of course, a **rebate** for the unexpired period of its currency.

**Discount on Consignment Bills.**—The bills drawn against consignments are generally discounted or sold by the consignor. The discount or exchange charged by the bankers for cashing the bill is, however, dealt with in two different ways. In some businesses it is charged to the Discount Account in the usual way, being looked upon as an ordinary financial expense. In others, however, it is regarded as part of the expense connected with the consignment, and nothing to do with the other part of the business; and hence it is debited to the particular consignment in connection with which the bill was drawn. In like manner, when consignments are financed by means of bank loans, the interest on such loans is charged to the Consignment Account.

**Del Credere Commission.**—*Del credere*, pronounced "*dēl krēd'-ēr-ē*," is an Italian phrase, signifying, literally, "of trust." Since the consignee is only an agent selling goods on the consignor's behalf, it follows that all expenses and losses incurred by him fall eventually on the consignor. Now, should the consignee in selling the goods make a bad debt, *i.e.*, not receive payment for some of the goods sold, this loss must ultimately be borne by the consignor; for the consignee will remit only for that portion of the

consignment for which he himself has received payment. To prevent the possibility of a bad debt falling upon the consignor, the latter may arrange to pay the consignee, in addition to the ordinary agent's selling commission—an extra commission, called a **del credere commission**. In return for this, the consignee guarantees the solvency of the purchaser; in other words, he makes himself responsible to the consignor for payment of the proceeds of the consignment, whether he himself gets paid or not.

**Account Sales and Entries for Same.**—When the goods are sold, the consignee will send the consignor an **Account Sales**, that is, a statement giving particulars of what the goods have been sold for, and detailing the various expenses attending the sale of them. On receipt of this document, the consignor will make a Journal entry in his books debiting the consignee (who has now become his debtor) and crediting the Consignment Account with the proceeds. This does not, however, dispose of the matter entirely; for the account sales is not *money*, as many students seem to think. The goods have still to be paid for, and the consignee's account will continue to show a debit balance until a remittance is received in payment of the amount owing. Should a sight draft or bill in settlement be forwarded along with the account sales, the entry "*To Consignment*" on the receipt side of the Cash Book, or "*Bill Receivable Dr. to Consignment*" in the Journal, while theoretically correct, should be avoided. Two entries should be made as in practical work, namely, a Journal entry "*Consignee Dr. to Consignment*," for the net proceeds as per the Account Sales, and a Cash Book entry "*To Consignee*" on the receipts side, or a further Journal entry "*Bill Receivable Dr. to Consignee*," unless the bill is entered in the Bill Book, the idea being, wherever possible, to show money and bills as coming from *persons* rather than things. The Account Sales itself is either pasted into a special guard book, or else filed on a separate file, for the purpose of subsequent reference if necessary.

**Account Sales in Currency.**—Where the Account Sales is rendered in currency, it will require to be converted into sterling before the figures can be dealt with. The rate for conversion will be the rate ruling on the day when the Account Sales is received. Should, however, payment be made at a later date, and a different rate be current when



the money is actually received, a Journal entry must be made transferring any profit or loss on exchange either to a "Difference in Exchange Account," or, if preferred, back to the Consignment Account, both ways being in use.

**Balancing the Consignment Account.**—Three cases arise, namely, when the goods are (*a*) unsold, (*b*) fully sold, (*c*) partly sold. In the case of (*a*) the goods not being sold at balancing time, the amount of the Consignment Account, that is, the cost of the goods plus the freight, insurance, etc., will be shown on the Balance Sheet as an asset, being the value of a portion of our goods abroad. Any advance or remittance on account may either be shown as a deduction from the consignment on the assets' side, or as a separate item on the liabilities side. When the goods have (*b*) been fully sold and the Account Sales duly entered up, the Consignment Account is balanced. A debit balance represents a loss, while a credit balance denotes a gain, and such balance is carried to the Profit and Loss Account. In the case of (*c*) the goods being only partly sold, then the value of the stock unsold must be written in on the credit side of the Consignment Account before balancing, to ascertain the result. The profit or loss on the part actually sold will then be transferred to the Profit and Loss Account. The unsold stock, plus a proportionate amount of the insurance and freight charges, will be brought down as a debit balance in the Consignment Account, and will figure in the Balance Sheet as an asset, viz., as "*Goods*" or "*Stock on Consignment.*" The consignment expenses must, of course, be apportioned, otherwise the freight and insurance of the *whole* of the goods gets charged against the sale of *part* of them.

**Account Current between Consignor and Consignee.**—Sometimes interest is brought into account with respect to the money transactions connected with the consignment, thus introducing an Account Current between the two parties. The consignee will charge interest on the various sums of money paid out for expenses or remitted on account, and will likewise allow interest on the cash proceeds of the consignment. The interest runs from the date the money is received, or paid, up to the time when the Account Sales with remittance in settlement, is forwarded to the consignor. (See also ACCOUNT CURRENT, ACCOUNT SALES, ADVANCES ON CONSIGNMENTS, AGENTS' ACCOUNTS, DOCUMENTARY BILLS.)

**Example 1.**—Consigned to J. Smith, of Capetown, Goods



value £500, invoiced *pro formâ* at 20 per cent. on cost, plus shipping charges. Paid Carriage £3, Freight £40, and Insurance £20. Received an Advance of £200 from Bennett & Co., his London agents. Received Account Sales from J. Smith showing that the goods had realised gross £760, and that his expenses and commission amounted to £70. Received sight draft for balance due. Make the necessary entries in the Consignor's Journal and Cash Book, and show also the Ledger Accounts.

JOURNAL.		Dr.	Cr.
Consignment Account .. ..	500		
To Goods .. ..			500
Invoiced <i>pro formâ</i> at 20 % on cost (£600), plus shipping charges.			
J. Smith .. ..	690		
To Consignment Account .. ..			690
Net proceeds as per Account Sales.			

CASH BOOK.		Dr.	Cr.
Receipts.	Bank.	Payments.	Bank.
To J. Smith (advance) ....	200	By Consignment A/c—	
„ J. Smith (sight draft) <sup>1</sup> ..	490	Carriage .. ..	3
		Freight .. ..	40
		Insurance .. ..	20

<sup>1</sup> N.B.—Sight draft = cheque.

## LEDGER.

GOODS ACCOUNT.		Dr.	Cr.
		By Consignment A/c ..	500

CONSIGNMENT ACCOUNT. (J. SMITH, CAPE TOWN.)		Dr.	Cr.
To Goods .. ..	500	By J. Smith .. ..	690
„ Cash (carriage) .. ..	3		
„ „ (freight) .. ..	40		
„ „ (insurance) .. ..	20		
„ Profit & Loss A/c (profit)	127		
	690		690

<i>Dr.</i>		J. SMITH.						<i>Cr.</i>	
To Consignment A/c ..	690			By Cash .. ..	200				
				" " .. ..	490				
	690							690	

**Example 2.**—Consigned Goods value £750 to F. Brown, of Melbourne. Paid Freight, etc., £60, and Insurance £30. Drew on F. Brown, at 2 months for £250, as an Advance against consignment, and sold bill for £245. Received Account Sales from F. Brown showing that part of the goods had realised gross £750, and that his expenses and commission amounted to £85. The stock unsold was valued, at cost price, at £250. Received draft at 2 months from F. Brown for amount due. Make the necessary entries in the Consignor's Journal, Cash Book, Ledger, etc., to record the above transactions.

### First Way—

#### JOURNAL.

*Dr.**Cr.*

Consignment Account.. ..	750				
To Goods .. ..				750	
Value of goods sent to F. Brown, Melbourne.					
F. Brown .. ..	665				
To Consignment Account .. ..				665	
Net proceeds as per Account Sales.					

*Dr.*

#### CASH BOOK.

*Cr.*

Receipts.		Bank.		Payments.		Bank.	
To Bill Receivable .. ..	250			By Consignment A/c— Freight, etc. .. ..		60	
				Insurance .. ..		30	
				" Consignment A/c— Discount on Bill .. ..		5	

## BILLS RECEIVABLE BOOK.

Date Received.	From whom Received.	Amount of Bill.			Date of Bill.	Term.	Due Date.
	F. Brown	200	0	0		2 mos.	
	F. Brown	415	0	0		2 mos.	

## LEDGER.

Dr.	GOODS ACCOUNT.				Cr.
				By Consignment A/c	750

## CONSIGNMENT ACCOUNT.

Dr.	(F. BROWN, MELBOURNE.)				Cr.
To Goods .. ..	750			By F. Brown .. ..	665
„ Cash (freight) ..	60			„ Stock .. £250	
„ „ (insurance) ..	30			„ Expenses—	
„ „ (discount on bill) ..	5			$\frac{2}{100}$ or $\frac{1}{5}$ of £90 = 30	c/d 280
„ Profit & Loss A/c (profit)	100				
	945				945
To Balance .. .. b/d	280				

Dr.	F. BROWN.				Cr.
To Consignment .. ..	665			By Bill Receivable .. ..	250
				„ „ „ .. ..	415
	665				665

Dr.	BILLS RECEIVABLE.				Cr.
To F. Brown .. ..	250			By Cash .. ..	250
To F. Brown .. ..	415				

## Second Way—

JOURNAL.				Dr.	Cr.
Consignment Account.. ..	750				
To Goods on Consignment.. ..					750
Value of goods sent to F. Brown, Melbourne.					

JOURNAL—*continued.*

Dr.

Cr.

F. Brown .. .. .	750				
To Consignment Account .. ..				750	
Gross proceeds as per Account Sales.					
Consignment Account.. .. .	85				
To F. Brown .. .. .				85	
Expenses and commission as per Account Sales.					

## LEDGER.

Dr.

## GOODS ON CONSIGNMENT.

Cr.

To Trading A/c .. ..	750			By Consignment A/c ..	750
----------------------	-----	--	--	-----------------------	-----

## CONSIGNMENT ACCOUNT.

Dr.

(F. BROWN, MELBOURNE.)

Cr.

To Goods on Consignment	750			By F. Brown .. ..	750
" Cash (freight).. ..	60			" Stock .. £250	
" " (insurance) .. ..	30			" Expenses .. ..	c/d 280
" " (discount on bill)	5			" 2/3 of £90 30	
" F. Brown (expenses and commission) ..	85				
" Profit & Loss A/c (profit)	100				
	1,030				1,030
To Balance .. b/d	280				

Dr.

## TRADING ACCOUNT.

Cr.

				By Sales .. .. .	
				" Goods on Consignment	750

Dr.

## PROFIT AND LOSS ACCOUNT.

Cr.

				By Trading A/c (gross profit) ..	
				" Consignment A/c (net profit) ..	100

The difference consists in booking up both the gross proceeds and the expenses and commission instead of just merely the net proceeds, so that the Consignment Account shall show the full particulars. Another difference is in the opening of a

"Goods on Consignment" or "Consignment Outwards" Account. This is done whenever Stock, Purchases, and Sales Accounts are kept in place of a Goods Account. It is not correct to put the consignment through the Sales Book, or through the Sales Account; because it is not a sale of goods; and the goods may never be sold, but may be returned. And even though it may be urged that the goods have been entered in the Sales Book and Sales Account at cost price, and no credit taken for any profit, yet the fact remains, that the turnover is being increased fictitiously.

**Consignment on Balance Sheet.**—Suppose in **Example 1** the goods, at balancing time, had not been sold, the Consignment Account would have appeared on the Balance Sheet thus—

## BALANCE SHEET.

<i>Liabilities.</i>				<i>Assets.</i>			
				Consignment ..	£563		
				less Advance ..	200		
						363	
Or				Consignment A/c ..	563		
J. Smith .. ..	200						

In **Example 2** the part of the goods remaining unsold at balancing time would be shown as under—

## BALANCE SHEET.

<i>Liabilities.</i>				<i>Assets.</i>			
				Goods on Consignment ..	280		

**CONSOLS.**—This word is an abbreviation of the term "Consolidated Stock" or "Consolidated Annuities." Various sums of public money borrowed at different times by the Government were, in 1787, consolidated into one debt, called the "Funded Debt," as the various sources of revenue such as Customs, Excise, etc., were also consolidated, and the consolidated funds pledged as security for the payment of the interest. The Funded Debt is not a Loan in the ordinary sense of the word, as the Government is under no obligation to repay the money at any particular time. A person who invests in £100 worth of Consols is, therefore, really buying the right to an **Annuity** or annual payment of interest on his money. In 1888 the rate of interest was reduced from

3 per cent. per annum to  $2\frac{3}{4}$  per cent., and in 1903 to  $2\frac{1}{2}$  per cent. The interest on Consols, or **Consolidated Annuities** as they are called in the 1903 Act, is payable quarterly, on the fifth day of the first month of each quarter, namely, Jan., April, July, and Oct. The whole may be redeemed at par after 5th April, 1923.

**CONSULAR INVOICE.**—An invoice which has been *visé* (seen and endorsed) by the Consul of the particular country to which the goods are being exported. This is often necessary in order that such goods may be passed by the Customs Authorities at the port of destination.

**CONTANGO.**—An extra commission charged by brokers on the Stock Exchange for carrying over a bargain from one fortnightly settlement day to another.

**CONTINENTAL SYSTEM.**—(See JOURNAL.)

**CONTINGENT LIABILITY.**—A liability that arises only on the happening of a certain event, as, for example, bills under discount; if the acceptor dishonours the bill, then the endorsers and drawer become liable for payment. Other examples of contingent liabilities are: (1) Arrears of dividend on Cumulative Preference Shares, (2) Uncalled Capital on Shares held in a Joint Stock Company. Such liabilities should be shown on the Balance Sheet in the form of a foot-note.

**CONTINGENT LIABILITIES (BANKRUPTCY).**—(See STATEMENT OF AFFAIRS.)

**CONTRA.**—(See CASH BOOK.)

Per Contra.—Contrariwise; as shown on the other side.

**CONTRACT NOTE.**—A memorandum of a purchase or sale of any stock or marketable security effected by a broker for his client.

**CONTRACTS.**—Legally, “every agreement or promise enforceable at law is a contract.” In a book-keeping sense, however, a contract is an agreement to carry out some big undertaking such as the erection of a hotel, church, school, sea-wall, bridge, etc., by builders and contractors; or the building of ships by a shipbuilder. Contracts are treated similarly to consignments; that is, a separate account is opened for each contract under a special distinguishing number. Each contract is debited with the expenses incurred on it for materials, carriage, cartage, wages, plant, stores, extras, special items, etc., and credited with the instalments received on account. When all the work is done, and all the money



received, the balance of the Contract Account will represent the profit or loss on the undertaking, and will be transferred to the Profit and Loss Account.

**Materials Account.**—Instead of a Goods Account, a Materials Account is kept. It is only a Goods Account under another name, but the name is much more suitable. Goods are things bought *for re-sale*; materials are things bought primarily *for use*. The profit is made not by the selling of goods, but on the work executed. The Materials Account is debited with the stock at commencement, and with the subsequent purchases of materials and stores; it is credited with the sales, if any, and with the value of the materials issued to the contracts. At balancing time it is credited with the stock on hand; and the balance of the account will then be either a profit or a loss on the materials dealt with during the period. The prices of building material fluctuate considerably, and at stock-taking the stock is consequently valued at market price if the latter is below cost price. This may result in the Materials Account showing a loss instead of a profit.

**Purchases.**—If the ordinary two-column Bought Book is in use, then the credit purchases of such items as Plant and Expenses will have to be journalised. It is more usual, however, to find a tabular Purchases Book employed, so that everything that is obtained on credit may be entered in it, and be analysed or extended into appropriate columns. Sometimes, however, special material is ordered for certain contracts, and is requested to be sent direct to the particular contracts, in order to avoid having to pay double carriage. In such cases the stuff never comes into stock at all, and when the invoice for it is received, a Journal entry is made debiting the contract and crediting the person from whom it has been purchased. The totals of the Bought Book columns are debited monthly to the Materials, Plant, and Expense Accounts respectively.

**Sales.**—The ordinary Sales Book will not be required for the contracts if the materials used on them are charged out at cost price, as it is no sale; the Contract Accounts will be debited, and the Materials Account credited, either through the Journal, or from a special tabular "**Materials Is used Book**" having separate columns for each contract. But if the materials are charged to the contracts at a percentage on cost, such transactions may then be put through the Sales

Book. There may also be genuine sales of bricks, slates, drain pipes, and other building material to small builders or dealers. The total of the Sales Book is posted monthly to the credit of the Materials Account.

**Wages.**—The wages paid require to be very carefully dissected, in order to ascertain the exact cost of the labour on each contract. This necessitates the use of Pay Sheets and Wages Books provided with analytical columns similar to the following—

## WAGES SHEET

For the Week ending....., 19...

Contract No. and Name.....

[illegible]

Signature of Foreman.....

## WAGES ANALYSIS BOOK.

Week ending....., 19...

[illegible]

**Instalments on Contracts.**—A contract is agreed to be executed for a certain price; but the money is generally received by instalments, on production of a certificate from the contractee's architect or surveyor certifying for the work done. In theoretical work the instalments are posted direct to the Contract Account, but in actual practice the cash received is frequently credited to the personal account of the Contractee. When the work is finished, the personal account is debited, and the Contract Account credited, with the contract price.

**Contracts in Opening Entries.**—The student will generally find in theoretical and in examination work that two balances are given in respect of each contract, one representing the value of the work done, and the other the total of the instalments received on account. Both balances should be entered in the Journal, the work done being put with the assets in the debit column, and the instalments received being put with the liabilities in the credit column.

**No Entry on Acceptance of a Contract.**—When a contract is accepted, no entry is made in the books of account, as the only entry which could be put through would be one debiting the Contractee, and crediting the Contract Account, with the agreed price of the work. This, however, would not be correct; for the contractee does not become our debtor for the contract price until the work is finished. In examination work, therefore, for such an item as "*Signed (or Took) Contract for New Church, £5,000,*" there will be no entry. But the moment any expenses are paid in connection with a contract, these must be charged up to it forthwith.

**Extras.**—These will be a matter for arrangement between the parties to the contract. The extras will be debited to the contract concerned, and will, if not settled specially, increase the amount payable.

**Distinction between Plant and Materials.**—Numbers of students are quite unable to distinguish between what are Materials and what is Plant. Materials will be anything that is built into the edifice or contract work and left there as an integral part of it when the contract is finished. Plant will be anything that is used to assist in the building process, but brought away when the contract is completed. Yet we constantly find students booking up girders as *plant* (possibly because they are ironwork), and scaffold poles as *materials*. The real test, therefore, is whether the article will form a

permanent part of the actual contract structure, or whether it is something in use there temporarily. Hence, according to this test, girders will be *materials*, but scaffold poles will be *plant*.

**Plant Used on Contracts.**—If ordinary Plant from stock is used on a contract, a charge is often made against the Contract Account for the use of such plant, or for the depreciation estimated to have accrued through its use on the contract. Depreciation on the building yard and fixed plant, and also on the horses, carts, and loose plant, is, however, frequently debited to the Profit and Loss Account, owing to the difficulty of correctly apportioning the depreciation between the various contracts. It sometimes happens that special plant has to be bought for certain contracts. For instance, in building a bridge, different plant would be required from that for building a school. This plant when bought is debited to the Plant Account. When the contract is finished, the plant, not being needed any longer, is sold; but, as it is then second-hand, a loss is incurred on its sale. This loss must be journalised back to the debit of the Contract Account, and to the credit of the Plant Account. Such a loss, in connection with a particular contract, could not properly be charged against the profits of the other part of the business. It is not unusual, however, with Plant and Stores bought specially for a contract, to find such plant and stores debited to the particular Contract Account when they are purchased. When the work is completed, the Contract Account is credited with the amount obtained from the sale of the special plant and stores, thus obviating the necessity for a Journal entry to adjust the loss on re-sale.

**Indirect and Establishment Expenses.**—In some cases, indirect wages such as those of yard watchmen, foremen, and managers, and also establishment expenses such as rent, rates, salaries, lighting, etc., are charged against the various contracts by means of a certain percentage. This matter, however, is more fully treated under Cost Accounts. Owing to the difficulty of correct apportionment, these expenses are more often charged to the Profit and Loss Account.

**Jobbing Account.**—This comprises a lot of little jobs undertaken, such as repairing roofs, unstopping drains, letting out horses and carts, and possibly steam roller for hire, etc. If the work is done for cash, there will be an entry on the receipts

side of the Cash Book, "*To Jobbing Account*"; if the work is done on credit, the entries will be put through a **Jobbing Day Book** or journalised. If nothing more is done to the Jobbing Account than to credit it with the value of the work executed, it will represent a gross sale, and should go to the Trading Account (if there is one). If, however, the Jobbing Account is debited with the cost of the wages and materials expended on the various jobs, the balance of the account will denote the net profit on the work done, and should be carried to the Profit and Loss Account.

"**Materials Issued to Contracts**" Account.—In a mixed kind of business where Stock, Purchases, and Sales Accounts are kept in addition to Contract Accounts, the materials and stores used for the contracts will be credited to an account entitled "**Materials Issued to Contracts.**" This account is closed eventually by transfer to the Trading Account, which will be drawn up in a manner similar to the following—

Dr.	TRADING AND PROFIT AND LOSS ACCOUNT.				Cr.
To Stock (at start) .. .. " Purchases .. .. " Carriage .. .. " Wages .. .. " Profit and Loss A/c (gross profit) .. ..					By Sales .. .. " Materials issued to Contracts .. .. " Jobbing A/c .. .. " Stock (at finish) .. ..
To Contract 3 (net loss) ..					By Trading A/c (gross profit) " Contract 1 (net profit) .. " Suspense A/c (estimated profit on Work in Progress) .. ..

**Special Clauses in Contracts.**—Some contracts have a sort of "**penalty clause,**" under which the contractor becomes liable, if the work is not done to time, to pay a certain sum of money as "**liquidated damages**" for breach of contract. Others, again, especially when the work is very urgent, contain a clause offering the contractor an extra payment of so much per day for every day the work is completed before the agreed time. As far as the books are concerned, these items will, of course, diminish or increase the profits on such contracts.

**Retention Money on Contracts.**—Most contracts, particularly municipal ones, stipulate that only 80 per cent. of the work done, as per the architect's or surveyor's certificates, shall



be paid for, the other 20 per cent. being retained until completion. In some cases of retention money, however, half is paid three months after the signing of last certificate, and the balance three months later. This is done in order to see whether the work turns out satisfactory or not. The Contract Account however, is closed by having the balance transferred either to a personal account or to a "Retention Money on Contracts Account." This latter item will, of course, figure on the assets side of the Balance Sheet if still outstanding at balancing time.

**Balancing of Contract Accounts.**—When a contract is completed and the money received, the Contract Account is balanced, a debit balance representing a loss, a credit balance representing a gain; and such balance is transferred to the Profit and Loss Account. Should the contract be finished but the money not all received, it is obvious that the Contract Account cannot be balanced as it then stands, because such a balance would represent neither a profit nor a loss. We cannot, however, allow the Contract Account to remain like this until we receive the money due. If the contract is completed this year, the profit or loss on it must go to this year's Profit and Loss Account. The Contract Account is, therefore, credited with the amount owing as if it had actually received it, and the same amount is debited to the personal account of the party for whom the work has been done, or to a Sundry Debtors' Account. As regards examination work, students seem to be greatly confused. In their Trial Balance they find balances on several contracts, and they are unable to decide whether such balances are to be carried to the Profit and Loss Account or to the Balance Sheet. Now, if the balances are credit balances, it is fairly safe to assume that such balances are profits; and they may be transferred to the Profit and Loss Account. But with a debit balance we must be careful. It does not necessarily denote an *unfinished* contract to be carried to the Balance Sheet. It is quite possible for a debit balance to signify a loss on a *completed* contract. What the student must first ascertain is whether such contract is finished or not. If it is, there will always be some statement to guide the student, such as "*Contract 121 completed and passed,*" or "*Received final instalment on Contract 122.*" Then, if the contract is *finished*, a debit balance denotes a loss, to be taken to the Profit and Loss Account; if the contract is *unfinished*, then a debit balance



represents a debt due to us, and will be carried to the assets side of the Balance Sheet at balancing time.

**Contracts on the Balance Sheet.**—The totals of each side of a Contract Account afford the builder definite information, whereas the balance between the two sides tells him nothing. The instalments received on account, even though they are credit balances, should not, however, be shown on the liabilities side; for there is no liability to repay the money actually received. Both amounts should appear on the **assets** side, thus—

<hr/>									
Contract 248—									
Materials and Labour..	..	5,456	19	4					
less Instalments received	..	4,000							
					1,456	19	4		
Contract 249—									
Expenditure thereon ..	..	3,056	9	8					
less Payments to date..	..	2,000							
					1,056	9	8		
Contract 250—									
Value of Work done ..	..	7,628	6	11					
less Cash on account ..	..	5,500							
					2,128	6	11		
<hr/>									

or, especially when the unfinished contracts are numerous, they may be shown in **one** item, thus—

Work-in-Progress .. .. .	..	16,141	15	11					
less Cash received on account	..	11,500							
					4,641	15	11		
<hr/>									

**Estimating Profits on Unfinished Contracts.**—Inasmuch as some profit is being made as a contract is proceeded with, it is considered correct to take credit for an amount of profit proportionate to the cost of the material and labour expended thereon to date. Conflicting views are held, however, on this point. Some firms look upon the profit as being made on the job as a *whole*, and not on any *part* of it; and they rigidly adhere to the rule of not taking credit for any profit until the work is completed. There are obvious disadvantages in this method of treatment. The profits of the different years will be out of all proportion. Should several contracts happen to be finished in the same year, the profits of that

particular year will be extraordinarily large, and the profits of the previous years extremely small. There are disadvantages also in the system of taking credit for the accrued profit to date, because contingencies, such as strikes, might happen which would seriously affect the anticipated profit. Inasmuch as cash has been received, however, in payment of part of the work already done, this latter system seems to be the more satisfactory method of dealing with the matter. The question then arises how such profit is to be ascertained. Some contractors estimate their gross profit at a certain percentage (20 to 33 $\frac{1}{3}$ ) on their outlay; and, in such cases, a similar percentage on the outlay to date would give the required profit to date. In other cases, a certain profit is expected to be made on the contract as a whole; and, if the expenditure to date has kept within the estimated limits, it is reasonably assumed that the anticipated profit will eventually be realised. If, therefore, half of the work has been executed, then half of such profit may be taken credit for; if one-fourth, then one-fourth of such profit, and so on. Some accountants, however, urge that no credit should be taken for any profit at all, unless at least *one-third* of the contract has been completed. At balancing time, the work done and the instalments received on the unfinished contracts, as shown by the books, are carried to the Balance Sheet in the manner stated in the previous paragraph. If it is desired to take credit for the interim profit on such work, a Journal entry must be made, as follows—

JOURNAL.		Dr.		Cr.	
Suspense A/c .. ..	4,035	9		4,035	9
To Profit and Loss A/c					
Estimated gross profit on					
Work-in-Progress, say,					
25% on outlay to date,					
namely, on £16,141:15:11.					

The Suspense Account will appear as a temporary asset on the Balance Sheet. Supposing the contracts to be completed in the following year, the Suspense Account will be debited to the Profit and Loss Account, so as to reduce the full contract profits, then being credited, to the amount really applicable to the second year, thus—

Dr.

## PROFIT AND LOSS ACCOUNT.

Cr.

To Suspense A/c .. ..	4,035	9	By Contract 248 .. ..	4,000	
etc.			" " 249 .. ..	3,000	
			" " 250 .. ..	5,000	
			etc.		

On the other hand, supposing that a certain contract is expected to result in a *loss*, then a Reserve should be made in the current year's Profit and Loss Account, in order to cover same or a proportion of it.

## Example.—

19..									
Jan. 1	Expenditure on Contract 121 to date .. ..	2,778	13	11					
"	Instalments received on above .. ..	1,500							
"	Materials and Labour to date, Contract 122 .. ..	5,175	8	4					
"	Cash received to date on above .. ..	3,000							
2	Signed Contract (No. 123) to build New Hart Street Church .. ..	18,000							
"	Paid Surveyor's Fee on above .. ..	25							
3	Received Instalment Contract 121 .. ..	1,200							
6	Bought Girders for cash .. ..	150							
8	Paid Carriage <i>re</i> Contract 123 .. ..	3	15	6					
9	" Fire Insurance Premiums—								
	Building Yard Stock and Plant .. ..	30							
	Contract 123 .. ..	5	5						
10	Wrote off value of Horse killed in street .. ..	28	10						
11	Paid Wages for fortnight—								
	In Yard .. ..	11	7						
	Contract 121 .. ..	182	13	2					
	" 122 .. ..	173	17	7					
	" 123 .. ..	413	0	6					
13	Bought New Horse for cash .. ..	62	10						
14	Materials supplied to date—								
	Contract 121 .. ..	506	19	2					
	" 122 .. ..	492	6	6					
	" 123 .. ..	386	15	3					
15	Received cash for Cartage Work done .. ..	16	10	9					
16	" Instalment Contract 122 .. ..	1,800							
17	" for Hire of Steam Roller .. ..	20							
19	" cash Sundry Sales .. ..	12	15	9					
20	Bought Scaffold Poles for cash .. ..	66	17	6					
22	Paid for Repairs—								
	Machinery .. ..	20							
	Carts .. ..	10							
25	Paid Wages for fortnight—								
	In Yard .. ..	10	18	10					
	Contract 121 .. ..	162	11	1					
	" 122 .. ..	198	0	7					
	" 123 .. ..	226	15	1					

## Example—continued.

Jan. 26	Paid for Shoeing Horses .. .. .	3	12	
"	" for Horse Provender .. .. .	16	8	4
27	Contract 121 completed and passed.	2,000		
	Final Instalment received .. .. .			
28	Materials supplied to date—			
	Contract 122 .. .. .	485	4	2
	" 123 .. .. .	312	19	5
"	Received net proceeds sale by auction of Loose Plant, Contract 121 (value in books £300) ..	127	10	
29	Contract 122 completed. Balance due from Bruce Smith & Co. .. .. .	3,000		
"	Received for Rent of Sheds .. .. .	3	10	
30	" Instalment Contract 123 .. .. .	800		
31	" Instalment <i>vs</i> Contract 122 .. .. .	1,500		
"	Rendered Accounts to Sundry Persons for work done, whitewashing, plumbing, repairing, etc.	34	17	6
"	Received Demand Note for Water supplied to Contract 123 .. .. .	6	10	

Write up the Journal and Cash Book, and show the Contract Accounts in the Ledger.

JOURNAL.		Dr.			Cr.		
19..							
Jan. 10	Loss of Horse .. .. .	28	10				
	To Loose Plant .. .. .				28	10	
14	Contract 121 .. .. .	596	19	2			
	" 122 .. .. .	492	6	6			
	" 123 .. .. .	386	15	3			
	To Materials .. .. .				1,386	0	11
28	Contract 122 .. .. .	485	4	2			
	" 123 .. .. .	312	19	5			
	To Materials .. .. .				798	3	7
28	Contract 121 .. .. .	172	10				
	To Loose Plant .. .. .				172	10	
29	Bruce Smith & Co. .. .. .	3,000					
	To Contract 122 .. .. .				3,000		
31	Sundry Debtors .. .. .	34	17	6			
	To Jobbing A/c .. .. .				34	17	6
31	Contract 123 (Water) .. .. .	6	10				
	To Outstanding A/cs .. .. .				6	10	

Dr.			CASH BOOK.			Cr.		
Date.	Receipts.	Bank.	Date.	Payments.	Bank.			
19..			19..					
Jan. 3	To Contract 121 ..	1,200	Jan. 2	By Contract 123 ..	25			
15	" Jobbing A/c ..	16	6	" Materials ..	150			
16	" Contract 122 ..	1,800	8	" Contract 123 ..	3	15	6	
17	" Jobbing A/c ..	20	9	" Fire Insurance ..	30			
19	" Materials ..	12	9	" Contract 123 ..	5	5		
27	" Contract 121 ..	2,000	11	" Wages ..	11	7		
28	" Loose Plant ..	127		" Contract 121 ..	182	13	2	
29	" Rent Received A/c ..	3		" " 122 ..	173	17	7	
30	" Contract 123 ..	800		" " 123 ..	413	0	6	
31	" Bruce Smith & Co. 1,500		13	" Loose Plant ..	62	10		
			20	" " ..	66	17	6	
			22	" Repairs ..	30			
			25	" Wages ..	10	18	10	
				" Contract 121 ..	162	11	1	
				" " 122 ..	198	0	7	
				" " 123 ..	226	15	1	
			26	" Trade Expenses ..	3	12		
				" Horse Keep ..	16	8	4	

## LEDGER.

Dr.			CONTRACT 121.			Cr.		
19..			19..					
an. 1	To Balance ..	2,778	13 11	Jan. 1	By Balance ..	1,500		
11	" Cash (Wages) ..	182	13 2		" Cash ..	1,200		
14	" Materials ..	506	19 2	27	" " ..	2,000		
25	" Cash (Wages) ..	162	11 1					
28	" Loose Plant ..	172	10					
31	" P. & L. A/c (profit).	896	12 8					
		4,700				4,700		

Dr.			CONTRACT 122.			Cr.		
19..			19..					
Jan. 1	To Balance ..	1,175	8 4	Jan. 1	By Balance ..	3,000		
11	" Cash (Wages) ..	173	17 7	16	" Cash ..	1,800		
14	" Materials ..	402	6 6	29	" Bruce Smith & Co.	3,000		
25	" Cash (Wages) ..	108	0 7					
28	" Materials ..	485	4 2					
31	" P. & L. A/c (profit)	1,275	2 10					
		7,800				7,800		

Dr.			BRUCE SMITH & Co.			Cr.		
19..			19..					
Jan. 29	To Contract 122 ..	3,000		Jan. 31	By Cash ..	1,500		
				"	" Balance.. c/d	1,500		
		3,000				3,000		
Feb. 1	To Balance .. b/d	1,500						

Dr.		CONTRACT 123				Cr.	
19..					19..		
Jan. 2	To Cash (Fees) ..	25			Jan. 30	By Cash .. ..	800
8	" " (Carriage) ..	3	15	6			
9	" " (Fire Ins.) ..	5	5				
11	" " (Wages) ..	413	0	6			
14	" Materials ..	386	15	3			
25	" Cash (Wages) ..	226	15	1			
28	" Materials ..	312	19	5			
31	" Outs. A/c (Water).	6	10				
		1,380	0	9			800

Dr.		JOBGING ACCOUNT.				Cr.	
19..					19..		
Jan. 31	To Profit and Loss A/c (transfer) ..	71	8	3	Jan. 15	By Cash .. ..	16 10 9
					17	" " .. ..	20
					31	" Sundry Debtors..	34 17 6
		71	8	3			71 8 3

If the money received on Contract 122 had been posted to a personal account instead of the Contract Account, the latter and Bruce Smith & Co.'s account would have appeared thus—

Dr.		CONTRACT 122.				Cr.	
19..					19..		
Jan. 1	To Balance ..	5,175	8	4	Jan. 29	By Bruce Smith & Co.	7,800
11	" Cash (Wages) ..	173	17	7			
14	" Materials ..	492	6	6			
25	" Cash (Wages) ..	198	0	7			
28	" Materials ..	485	4	2			
31	" P. & L. A/c (profit).	1,275	2	10			
		7,800					7,800

Dr.		BRUCE SMITH & Co.				Cr.	
19..					19..		
Jan. 29	To Contract 122 ..	7,800			Jan. 1	By Balance ..	3,000
					16	" Cash .. ..	1,800
					31	" " .. ..	1,500
					"	" Balance .. c/d	1,500
		7,800					7,800
Feb. 1	To Balance .. b/d	1,500					

**Books and Accounts of a Large Contractor.**—In large concerns, the Stock, Purchases, and Sales Accounts are superseded by others. The Stock and Purchases Accounts are



replaced by a Stores Account, quantities of the ordinary kinds of materials being bought when the market price is favourable and kept in store. The Sales Account gives place to a Contracts Account. A Contract Journal takes the place of the Day Book, and a Contract Ledger the place of the Sales Ledger, though the entries in it are for a time credit balances, namely, the Contract instalments which have been posted to the credit of the Contractees' accounts. When a contract is finished, a Journal entry is made debiting the personal account in the Contract Ledger, and crediting the Contracts Account in the General Ledger. Under this system, the Contract Accounts themselves do not appear in the double-entry books, but are kept in a separate memorandum book, called a **Cost Ledger**, though the latter may, by means of an adjustment account, be made part of the double entry. From this it follows that the wages, materials, etc., expended on each contract cannot be posted directly from the double-entry books to the separate Contract Accounts. The wages are, therefore, not analysed in the Cash Book; the total only is entered, and is posted to a Wages Account. Materials bought specially for certain contracts are charged to a **Special Materials Account**. The stores issued to contracts are credited to the Stores Account, and debited to a **Stores Consumed Account**; the plant and tools issued to contracts are credited to the Plant Account, and debited to a **Plant Used Account**. On the completion of the contract, any unused stores are returned, the Stores Account being debited, and the Stores Consumed Account credited; and, in like manner, the plant returned is debited to the Plant Account, and credited to the Plant Used Account, at its reduced (*i.e.*, depreciated) value; or if any of the plant is sold, the Cash Book will be debited, and the Plant Used Account credited, with the money received for it. All purchases are entered in a tabular Purchases Book, and analysed under appropriate headings, the totals of the columns being posted monthly to their respective impersonal accounts in the General Ledger. The ruling of the book is similar to that shown on the next page. In very large establishments, in addition to a Stores Account, or a Stores and Materials Account, in the General Ledger, separate Stores Ledgers are kept. These are elaborate memorandum books having separate headings on the various pages for each of the different materials and stores handled, one side of the page recording the quantities received and the



Similar analyses are made of the Stores and Plant returned to stock; and the totals are credited to the Contracts concerned, in the Cost Ledger. The Wages paid are also dissected by means of Wages analysis forms like those shown previously, and the totals debited to the various contracts. Thus, full particulars of each contract appear in the Cost Ledger. In this book, too, the indirect wages and establishment expenses are allocated between the different contracts, so as to show the exact net profit of each contract. This system has the advantage of keeping the Contract profits from the knowledge of the staff. The Trading Account will assume a form similar to the following—

Dr.	TRADING ACCOUNT.				Cr.
To Work-in-Progress (at start) .. „ Stores Consumed .. .. „ Special Material .. .. „ Plant used .. .. „ Carriage .. .. „ Wages .. .. „ Petty Expenses .. .. „ Profit & Loss A/c (gross profit) .					By Contracts A/c .. .. „ Jobbing A/c .. .. „ Work in Progress (at finish)

The Work-in-Progress represents the value of the Materials Labour, etc., expended, as per the Cost Ledger, on the unfinished Contracts. As the Contract Accounts are not in the double-entry books, the latter do not show the value of the work in progress at the end of the financial period. They are made to do so by opening in the General Ledger an account called Work-in-Progress; the amount of such work is then debited to it, and credited to Trading Account. The Work-in-Progress will also appear as an asset on the Balance Sheet. If credit is taken for the accrued profit to date on such work, the profit is added on, and the total amount, after being credited to Trading Account, will be shown on the Balance Sheet thus—

## BALANCE SHEET.

<i>Assets.</i>				£	£
Work-in-Progress (plus estimated profit to date)					
less Cash on account..	..	..	23,620		
	..	..	10,000		
					13,620

**Example.**—B. Blaize & Co., builders and contractors secured on January 1st, 19.., a contract for building a

bridge, to cost £120,000. On December 31st the books of the firm showed the expenditure on the contract to be as follows: Plant and Tools, £18,000; Wages, £50,000; Materials, £35,000; Establishment Charges, £2,000. The cash received to date on account of the contract was £70,000, representing 70 per cent. of the work certified for. The value of the Materials on hand and Work finished, but not certified, amounted to £6,050. The Plant and Tools were re-valued at £16,200. Draw up a memorandum Profit and Loss Account in respect of the contract, and state what proportion of the profit to date might properly be taken credit for. Show also the item on the Balance Sheet.

Dr.		CONTRACT ACCOUNT.				Cr.	
To Wages .. ..	50,000	By Work Certified for					
" Materials .. ..	35,000	£70,000 × 100					
" Plant and Tools ..	18,000				100,000		
" Establishment		70					
Charges .. ..	2,000	" Materials on hand ;					
" Balance (profit) ..	17,250	and Work done,			6,050		
		but not certified for					
		" Plant and Tools,			16,200		
		less depreciation					
	122,250				122,250		

Two-thirds of the profit, namely, £11,500, might properly be taken credit for ; but, inasmuch as only 70 per cent. of the work certified for has been paid, it would, perhaps, be better to take to the credit of Profit and Loss only 70 per cent. of £11,500, that is, £8,050, leaving the remainder as a Reserve for contingencies.

BALANCE SHEET.

				Assets.			
Work in Progress (plus accrued profit) ..	..	..	..	113,050			
Less Cash on account .. ..	..	..	..	70,000			
						43,050	

The Work in Progress comprises, in this case, all the expenditure debited to the Contract, and includes temporarily the cost of the Plant so charged.

**CONTRIBUTORIES.**—All persons liable to contribute to the assets of a Joint Stock Company on its being wound up.

**CONVERSION OF PARTNERSHIP TO COMPANY.**—**Purchase of a Business.**—It is quite a usual procedure for partners to decide to convert their business into a limited

liability company. This may be done by forming a company either privately by the partners or publicly by offering shares for subscription. The resulting company then purchases the business as a going concern, paying to the vendors, as purchase price, shares, debentures, or cash, or all or any of these three. The company may, as a private company, consist of the original partners only, and so far as outsiders are concerned there is no *apparent* change, except that the name ends with the word "Limited." Thus, "John Brown & Co." becomes "John Brown & Co., Limited." It must be clearly understood that a new legal person has been created. The partners of John Brown & Co. are not buying their own business. The new legal person "John Brown & Co., Ltd.," is buying from the partners. The partnership is dissolved in the ordinary way, the books are closed, and the company's books are opened according to agreement.

**Example.**—A and B are in partnership, sharing profits and losses as to two-thirds and one-third respectively. Their Balance Sheet at the date when they agreed to convert their business into a private limited company was as follows—

A AND B's BALANCE SHEET AT 30TH SEPTEMBER.

<i>Liabilities.</i>		<i>Assets.</i>	
Sundry Creditors . .	15,000	Cash at Bank and in hand . . . . .	3,500
Mortgage on Freehold Capital—	5,000	Sundry debtors 14,000	
A . . . £10,000		Less Reserve 1,000	
B . . . 5,000			13,000
	15,000	Stock . . . . .	8,000
		Plant and Fixtures .	2,500
		Freehold Premises .	8,000
	35,000		35,000

The company (a private limited) consisting of A, B & C as shareholders, takes over all the assets and liabilities except the mortgage, the purchase price being £30,000 payable in Cash £6,000, in Debentures £12,000, and in fully paid Ordinary Shares £12,000. The shares, debentures, and cash are divided between A and B in the proportion in which they share profits; C takes up £10,000 ordinary shares and pays for them in full, and the firm discharges the formation expenses amounting to £240. The company is registered with a capital of £25,000.

Close the books of A and B after the transaction has been carried out, including the discharge of the mortgage, and open the company's books showing the company's financial position at the commencement of business.

## JOURNAL.

			L.F.	Dr.	Cr.
Sept. 30	Realization Account . . .	1	31,500		
	To Sundry Assets—				
	Sundry Debtors . . .				13,000
	Stock . . . . .				8,000
	Plant and Fixtures . . .				2,500
	Freehold Premises . . .				8,000
	Being value of Assets as per Balance Sheet dated 30th Sept.				
„ „	A B Company, Ltd. . . .	4	30,000		
	To Realization Account . .	1			30,000
„ „	Sundry Creditors . . . .		15,000		
	To Realization Account . .	1			15,000
	Liability taken over by Company				
„ „	Shares Account . . . .	5	12,000		
	Debentures Account . . .	6	12,000		
	To A B Co., Ltd. . . . .	4			24,000
	Part of Purchase Price paid in Shares and Debentures				
„ „	A's Capital Account . . .	2	8,000		
	B's „ „ . . . . .	3	4,000		
	To Shares Account . . . .	5			12,000
„ „	A's Capital Account . . .	2	8,000		
	B's „ „ . . . . .	3	4,000		
	To Debentures . . . . .	6			12,000

## A AND B'S BOOKS—

Dr.		REALIZATION ACCOUNT (1).				Cr.	
Sept. 30	To Sundry Assets (As per B.S. 30th Sept. 19..)	J.	31,500	Sept. 30	By A, B Co., Ltd.	J.	30,000
" "	" Cash . . . . .	C.B.	240	" "	" Sundry Creditors	J.	15,000
" "	" Balance (Profit)						
	A's Capital		8,840				
	B's Capital		4,420				
			45,000				45,000



Dr.

## A's CAPITAL ACCOUNT (2).

Cr.

Sept. 30	To Cash .. ..	C.B.	2,840	Sept. 30	By Balance ..	b/f.	10,000
" "	" Shares A/c...	J.	8,000	" "	" RealizationA/c		
" "	" DebenturesA/c	J.	8,000	" "	Two-thirds of Profit.. ..		8,840
			18,840				18,840

Dr.

## B's CAPITAL ACCOUNT (3).

Cr.

Sept. 30	To Cash .. ..	C.B.	1,420	Sept. 30	By Balance ..	b/f.	5,000
" "	" Shares .. ..	J.	4,000	" "	" RealizationA/c		
" "	" Debentures..	J.	4,000	" "	One-third of Profit ..		4,420
			9,420				9,420

Dr.

## A B CO., LIMITED (4).

Cr.

Sept. 30	To Realization A/c	J.	30,000	Sept. 30	By Cash .. ..	C.B.	6,000
" "				" "	" Shares .. ..	J.	12,000
" "				" "	" Debentures..	J.	12,000
			30,000				30,000

Dr.

## SHARES ACCOUNT (5).

Cr.

Sept. 30	To A B Co., Ltd.	J.	12,000	Sept. 30	By A's Capital A/c	J.	8,000
" "				" "	" B's " "	J.	4,000
			12,000				12,000

Dr.

## DEBENTURES ACCOUNT (6).

Cr.

Sept. 30	To A B Co., Ltd.	J.	12,000	Sept. 30	By A's Capital A/c	J.	8,000
" "				" "	" B's " "	J.	4,000
			12,000				12,000

Dr.

## MORTGAGE ACCOUNT (7).

Cr.

Sept. 30	To Cash .. ..	C.B.	5,000	Sept. 30	By Balance ..	b/f.	5,000
----------	---------------	------	-------	----------	---------------	------	-------

Dr.

## CASH BOOK OF A AND B.

Cr.

L.F.

Sept. 30	To Balance .. ..	b/f.	Sept. 30	By Realization Account	L.F.	
" "	" A B Co., Ltd. ..	4	" "	Formation Expenses paid .. ..	1	3,500
	" Part of Purchase Price received in Cash..		" "	" Mortgage Account ..	7	6,000
			" "	" Balance—A's Capital Account	2	9,500
				" B's .. ..	3	
						<u>9,500</u>

Dr.

## CASH BOOK OF A B CO., LTD.

Cr.

Sept. 30	To Share Capital Account	Sept. 30	By Vendors Account ..	
" "	Shares taken up by C	" "	Part Payment of Purchase Price ..	6,000
		" "	" Balance carried down	4,000
				<u>10,000</u>
Sept. 30	To Balance brought down			

A B Co., LTD. Books—

## JOURNAL.

			L.F.	Dr.		Cr.
Sept. 30	Business Purchase Account	1	30,000			
	To Vendors' Account . .	4			30,000	
	Being purchase price of A and B's business as per agreement					
	Sundry Assets—					
	Sundry Debtors . . .	5	13,000			
	Stock . . . . .	6	8,000			
	Plant and Machinery . .	7	2,500			
	Freehold Premises . .	8	8,000			
	Goodwill . . . . .	9	13,500			
	To Business Purchase A/c.	1			45,000	
	Being value of Assets ac- quired from A and B					
	Business Purchase Account	1	15,000			
	To Sundry Creditors . .	10			15,000	
	Being Liability taken over from A and B					
	Vendors Account . . .	4	24,000			
	To Share Capital . . .	2			12,000	
	„ Debentures . . . .	3			12,000	
	Being part of Purchase Price as agreed to be paid as per agreement					

Dr.

## BUSINESS PURCHASE ACCOUNT (1).

Cr.

Sept. 30	To Vendor . .	J.	30,000	Sept. 30	By Assets . . .	J.	45,000
„ „	„ Sundry Crs.	J.	15,000				
			45,000				45,000

Dr.

## SHARE CAPITAL ACCOUNT (2).

Cr.

Sept. 30	To Balance c/d	J.	22,000	Sept. 30	By Vendor . .	J.	12,000
				„ „	„ Cash . .	C.B.	10,000
			22,000				22,000
				„ „	„ Balance . .	b/d	22,000

Dr.

## DEBENTURES ACCOUNT (3).

Cr.

				Sept. 30	By Vendor . .	J.	12 000
--	--	--	--	----------	---------------	----	--------

Dr.

## VENDORS' ACCOUNT (4).

Cr.

Sept. 30	To Cash . . . .	C.B.	6,000	Sept. 30	By Bus. Purchase	J.	30,000
" "	" Share Capital	J.	12,000				
" "	" Debentures..	J.	12,000				
			<u>30,000</u>				<u>30,000</u>

Dr.

## SUNDRY DEBTORS ACCOUNT (5).

Cr.

Sept. 30	To Business Purchase Account	J.	13,000				
----------	------------------------------	----	--------	--	--	--	--

Dr.

## STOCK ACCOUNT (6).

Cr.

Sept. 30	To Business Purchase Account	J.	8,000				
----------	------------------------------	----	-------	--	--	--	--

Dr.

## PLANT AND FIXTURES ACCOUNT (7).

Cr.

Sept. 30	To Business Purchase Account	J.	2,500				
----------	------------------------------	----	-------	--	--	--	--

Dr.

## FREEHOLD PREMISES ACCOUNT (8).

Cr.

Sept. 30	To Business Purchase Account	J.	8,000				
----------	------------------------------	----	-------	--	--	--	--

Dr.

## GOODWILL ACCOUNT (9).

Cr.

Sept. 30	To Business Purchase Account	J.	13,500				
----------	------------------------------	----	--------	--	--	--	--

Dr.

## SUNDRY CREDITORS ACCOUNT (10).

Cr.

				Sept. 30	By Business Purchase Account	J.	15,000
--	--	--	--	----------	------------------------------	----	--------

## BALANCE SHEET OF A B CO., LTD. AS AT 30TH SEPT.

<i>Liabilities.</i>				<i>Assets.</i>			
Nominal Capital	25,000			Goodwill . .	13,500		
Issued Capital—				Freehold premises	8,000		
22,000 Ord. shares				Plant . . .	2,500		
£1 each . .	22,000			Debtors £14,000			
Debentures . .	12,000			Less Res. 1,000			
Creditors . .	15,000				13,000		
				Stock . . .	8,000		
				Cash . . .	4,000		
	<u>49,000</u>				<u>49,000</u>		

**COPYRIGHT.**—The right to make copies of books, etc. By the Copyright Act, 1911, the term for which copyright subsists is the life of the author and a period of fifty years after his death (Section 3). In the case of joint authorship, copyright subsists during the life of the author who first dies and for a term of fifty years after his death, or during the life of the author who dies last, whichever period is the longer (Section 16).

**COPYRIGHTS.**—These are treated as assets when purchased, and written down periodically. No general rule for depreciation can be laid down. There may be a continuous demand for some books, while for others the demand may cease soon after publication. Each case must be dealt with on its own merits.

**CORPORATION PROFITS TAX.**—This is a tax chargeable in respect of the profits of limited companies registered in or carrying on business in the United Kingdom. The tax dates from 1st January, 1920, but public utility companies such as gas, water, electricity, tramway, railway, dock, canal, hydraulic power companies and building societies are exempt until 1st January, 1926. The following companies and societies are exempt after 1st January, 1922 : Associations registered without the word "limited," or societies established solely for the advancement of religion or education and where profits may not be distributed to the members.

**Tax Payable.**—The tax payable is 5 per cent. of the computed profits of the actual period under review (not an average as in the case of Income Tax) but in the case of British companies the tax may not exceed 10 per cent. of the adjusted profits after actual payment of interest on permanent loans, debenture interest (limited to loans or debentures issued before 4th August, 1920, or loans to replace an equal amount) and fixed dividends on preference shares, etc. For each 12 months period an allowance of £500 is made, so that if the profits of a 6 months period are £2,250, tax will be paid upon £2,000 (£2,250 - £250).

**Calculation of Profits.**—Generally, the profits are calculated as for Income Tax purposes, but the following should be noted—

The annual value of premises owned and occupied by the company is not allowed, except in the case of mill or factory premises, when the allowance is one-sixth of the annual value.

The profits are to include income from property and investments except where such income has borne Corporations Profits Tax through another company.

An allowance is made for wear and tear of plant and machinery equal to that for Income Tax or Excess Profits Duty, whichever is the greater.

Where a person has, directly or indirectly, a controlling interest in the company, a deduction for remuneration may not exceed £1,000 per annum, nor is any allowance made for royalties or interest on loans paid to such a person.

Interest on money borrowed for the purposes of the company (bank overdraft) is allowed.

Interest on permanent loans such as debentures charged on all the assets of the company is not allowed, but where not less than one-half of the gross income is from property in the United Kingdom, then any interest paid in respect of any mortgages on such property is allowed.

Payments made to employees under a profit-sharing scheme are allowed.

Where certain private limited companies are liable to Super-Tax, any Corporation Profits Tax paid may be reclaimed.

Income Tax and Corporation Profits Tax paid may not be set against profits.

Interest received from  $3\frac{1}{2}$  per cent. Conversion Loan and  $4\frac{1}{2}$  and  $5\frac{1}{2}$  per cent. Treasury Bonds is not to be included, this being a condition of the issue.

Registered co-operative societies pay tax on profits from trading with non-members but not otherwise. Other mutual trading concerns pay on the whole of the profits.

Special conditions apply to life assurance companies.

Where a company holds the whole, or as much as a single shareholder may hold, of the ordinary share capital of a subsidiary company, then the profits of the latter are to be considered as part of the profits of the parent company.

**Returns.**—A return is to be made within 6 months of the end of the accounting period, or within 2 months of the date of the Commissioners' request for a return. Tax is payable within 2 months of the date of assessment.

**Example.**—The A B C Cycle Co., Ltd., has a capital of £75,000, divided into 50,000 6 per cent. Preference Shares of £1 each, and 25,000 Ordinary Shares of £1 each, and in addition has issued £15,000 Debentures at 6 per cent.



## THE A B C CYCLE CO., LTD.

PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31ST DECEMBER, 1921.

To Salaries .. ..	1,500	By Gross Profit ..	11,750
„ Trade Expenses ..	750	„ Interest on War	
„ Rates .. ..	400	Loan .. ..	100
„ Lighting and Heat-		„ Interest on 5½%	
Heating .. ..	150	Treasury Bonds	110
„ Income Tax ..	150	„ Dividend on Shares	
„ Property Tax ..	225	in Sugg Tyre	
(Sch. A, net assess-		Co., Ltd. ..	75
ment £750)			
„ Bad Debts ..	250		
„ Depreciation ..	200		
„ Debenture Interest	900		
„ Directors' Fees ..	2,500		
	<u>7,025</u>		
Net Profit ..	5,010		
	<u>£12,035</u>		<u>£12,035</u>

## APPROPRIATION ACCOUNT.

To Preference Divi-		By Net Profit .. ..	5,010
dend (6%) ..	3,000		
„ Ordinary Dividend			
(5%) .. ..	1,250		
„ Balance c/f ..	760		
	<u>£5,010</u>		<u>£5,010</u>

## PROFIT AND LOSS ADJUSTMENT ACCOUNT.

To Interest on Treas-		By Net Profit .. ..	5,010
ury Bonds ..	110	„ Items not allowed :	
„ Dividends (Sugg		Income Tax ..	150
Tyre Co., Ltd.)	75	Property Tax ..	225
„ Allowance for Wear		Depreciation ..	200
and Tear .. ..	150	Debenture Int.	900
„ One-sixth of annual		Excess Directors'	
value of factory		Fees .. ..	500
premises .. ..	150		
„ Assessable Profits	6,500		
	<u>£6,985</u>		<u>£6,985</u>

## STATEMENT OF LIABILITY.

Balance of Profit and Loss Account (as adjusted) ..	6,500
Less Statutory Allowance .. .. .	500
	<u>£6,000</u>
(5% on £6,000 = £300)	
	<u>£6,000</u>

Balance of Profit and Loss Account (as adjusted)	..	6,500	
Less Debenture Interest	.. .. .	£900	
Less Preference Dividend	.. .. .	£3,000	
		<hr/>	
		3,900	
		<hr/>	
(10% on £2,600 = £260)		£2,600	
		<hr/>	

The amount payable may not exceed £260, seeing that this is a British company.

There are two directors having a controlling interest, and each receiving £1,250 for his services.

**CORPUS.**—The capital of a deceased person's estate.

**CORPUS ACCOUNT.**—In Executorship Accounts now called the Estate Account, also the Estate Capital Account.

**COST ACCOUNTS.**—These are accounts designed to ascertain the cost of goods which have been made, of the total output of a business, of departments, of processes, or of contracts which have been carried out.

**Kinds of Cost Accounts.**—Cost Accounts will obviously vary according to the nature of the business for which they are constructed. They are generally divided into six classes—

- (1) Terminal or Contract Cost Accounts.
- (2) Operating or Working Cost Accounts.
- (3) Single or Output Cost Accounts.
- (4) Multiple Cost Accounts.
- (5) Process Cost Accounts.
- (6) Departmental Cost Accounts.

The last three are sometimes grouped under the heading of Factory Cost Accounts.

**Advantages of Cost Accounts.**—While the principal object of Cost Accounts is carefully to arrive at the prime and total cost of output or manufacture, there are certain indirect advantages to be derived from their preparation—

- (1) The selling price can be fixed with much greater certainty in order to realise the desired profit ;
- (2) They afford a check on the stores and storekeeper, enabling waste to be prevented and leakages detected ;
- (3) They afford a check also on the staff, as a record is taken of each man's labour, incompetent or slack workers being thus exposed ;
- (4) They afford valuable data for tendering, estimating,

and for comparison of different manufacturing periods or articles manufactured ;

(5) They enable a manufacturer to see whether a department is running at a profit or a loss, and if the latter, enable him to locate the loss ;

(6) They afford a check on the general double-entry books, as the total cost should equal the total expenditure charged to Profit and Loss Account ; and likewise the total profit should agree with the aggregate profits of the various jobs or articles as shown by the Cost Accounts. In cases where, owing to *estimated* expenditure, absolute agreement is not possible, the estimated profits may be compared with the actual profits of the Profit and Loss Account, and much valuable information thereby obtained.

**Information Required for Cost Accounts.**—The information required for cost accounts can be obtained only by dissection or analysis. We must know what material has been used. This may have been taken from store or bought specially. The wages must be dissected so that the productive labour may be separately ascertained. The expenditure must be analysed so that all expenses pertaining to special work may be charged direct to it. A Tabular Purchases Book and a Wages Analysis Book similar to those shown under Contract Accounts would be necessary. The rulings of the other books are as shown on the following pages.

**Difference between Prime Cost, Total Cost, and Selling Price.**—**Prime, First, or Flat Cost** is the cost of (1) Raw Material, plus all charges on it, such as carriage inwards, or freight, dock dues, landing charges, cartage and delivery to factory when the material has been imported from abroad ; (2) Labour, or productive wages paid for converting raw material into finished or manufactured goods ; (3) Direct Expenses. **Total Cost, Gross Cost, or Cost of Production** is the prime cost plus the indirect or administration and selling expenses. **Selling Price** is the total cost plus the percentage or margin of profit which it is desired to obtain for the goods when sold. We may thus tabulate it—

---

Selling Price.	{	Total Cost.	{	Prime Cost.	{	Flat Cost.	{	Materials.
								Productive Wages.
								Direct Expenses.
		Profit.		Indirect Expenses.				

---

STORES RECEIVED BOOK.

Date.	Order No.	From Whom.	Particulars.	Stores Ledger Folio.	Quantity.				Rate.	Amount.	Remarks.
					No.	cwts.	qrs.	lbs.			

STORES ISSUED BOOK.

Date.	Requi- sition No.	Particulars.	To Whom or for What Purpose.	Stores Ledger Folio.	Quantity.				Rate.	Amount.	Remarks.
					No.	cwts.	qrs.	lbs.			



Where the expenses are not, or cannot be, divided into direct and indirect, but are simply grouped as establishment charges, then prime, first, or flat cost will denote merely the cost of material consumed plus the productive wages paid—a meaning often restricted to the term “flat cost.”

**Distinction between Direct and Indirect Expenses.**—**Direct Expenses** are all expenses connected with or incidental to manufacture or production, and include—

- (1) Rent, Rates, Taxes, and Insurance of factory ;
- (2) Motive Power, Fuel, Gas, Water, Lighting, and Heating ;
- (3) Patent Fees when the article is manufactured under a patent, or Royalties in the case of minerals ;
- (4) Non-productive Wages and Salaries, such as those of enginemen, firemen, foremen, timekeepers, storekeepers, watchmen, factory clerks, superintendents, and managers ;
- (5) Repairs, Renewals, and Depreciation of Plant, Machinery, Tools, etc. ;
- (6) Interest on Capital outlay in Plant, Machinery, Tools, Land, and Buildings.

Where only one kind of article is being manufactured, all these expenses may be charged direct to the article produced ; and the total expenditure divided by the total number of articles manufactured will give the prime cost per article. But when several kinds of goods are being made, these expenses cannot be allocated to any particular work. They are then treated as indirect charges, and apportioned between the articles manufactured, on some suitable basis. **Indirect, Overhead, Fixed, Establishment, or Selling, Distribution, and Administration Expenses** are all those expenses which must be added to the prime cost in order to arrive at the total cost of production, and comprise—

- (1) Rent, Rates, Taxes, and Insurance of office, shop, warehouse, showrooms, etc. ;
- (2) Lighting, Heating, and Water ;
- (3) Travellers' Salaries and Commission ;
- (4) Salaries of assistants, counting-house staff, and manager, also Directors' Fees ;
- (5) Carriage Outwards, Packing Materials, Printing, Stationery, Advertising, etc. ;
- (6) Bad Debts, Discounts, etc. ;
- (7) Depreciation of Furniture, Fixtures, and Fittings ;
- (8) Interest on Capital, Loans, and Debentures ; Bank Interest, etc.



**"Oncost."** **Basis of Calculation.**—"Oncost" is a technical term used in cost accounts to denote all expenditure which cannot be directly charged to the articles manufactured or the work done. The term "**establishment charges**" is often used with the same signification. The allocation of general expenses so that each of the articles produced shall bear its just share is a matter of very great difficulty. There are in vogue various methods of calculating "oncost"—

(1) **By means of One General Percentage to Cover all Direct and Indirect Expenditure.**—This is obviously unscientific and inequitable. Work done with cheap tools is charged with the same proportion of expense as work necessitating the use of expensive machinery. It also leads to the cost of some articles being over-estimated and the cost of others under-estimated. And this may cause the loss of really lucrative work through the supposed cost being too high; while the apparently remunerative work being done may be yielding little or no gain if the exact facts were known.

(2) **By Means of a Percentage on the Total Number of Hours Worked.**—This may suffice when there is only one uniform class of machinery employed, but cannot be accurate when there are different kinds and classes of machines in use.

(3) **By a Percentage on Wages.**—This method, however, does not discriminate between expensive and cheap machinery, tools, etc. It is also most inequitable where wages form the smallest proportion of the total cost, as when boy and girl labour is employed on expensive machinery. But in cases where the work and the conditions vary very little, a percentage on wages may give fairly accurate results.

(4) **By the "Machine Rate" Method.**—This is a charge of so much per hour for each machine or tool used, intended to cover wear and tear and interest on the capital outlay. The great difficulty of correctly estimating depreciation, however, prevents this method being very accurate. It is also based on the assumption of the machine being constantly in use, and hence any periods of slackness or idleness would entirely vitiate the results.

(5) **By Varying Rates for Different Items of Expenditure.**—Rent, Rates, Taxes, Lighting, Heating, Capital Outlay, etc., may be apportioned according to the amount of floor space occupied by each shop, as this can be easily measured and is fairly accurate. Power consumed may be distributed by a

charge of so much per horse-power of each machine. Gas, Water, Electricity may, however, be accurately ascertained for each shop or department by means of separate meters. Depreciation may be calculated on each machine separately, or by grouping the machinery into numerous classes and fixing appropriate percentages for each class.

(6) **By Dividing the Expenditure into Two Classes and Calculating Each Class Separately.**—The expenses are subdivided into—

(a) **Manufacturing Expenses, or Factory Oncost**—all those expenses connected with production specified under Direct Expenses ;

(b) **Administration and Selling Expenses, or General Oncost**—all those expenses connected with selling and distribution enumerated under Indirect Expenses.

The works expenditure or factory oncost may be calculated by means of a percentage on (1) the combined cost of materials consumed and productive labour ; (2) materials only ; (3) labour only. The last way is most favoured, because wages are a more constant figure than materials, the price of which fluctuates considerably. The wages will seldom vary whether the material operated on be cheap or expensive. With certain kinds of material, however, there may be little outlay in productive wages, and hence a percentage on wages only would yield too small a proportion of establishment expenses. In other cases, where expensive material is used, a percentage on material only would give an excessive proportion of establishment charges. Again, where two articles of the same description are being manufactured, one with cheap and the other with expensive material, and involving virtually the same outlay in productive labour, a percentage on materials and labour combined would make the cost of the one out of all proportion to the other. It is, therefore, apparent that no hard and fast rule can be laid down ; the special circumstances of each case must be taken into consideration. Generally speaking, however, a percentage on wages will be found to be the most equitable. In the first instance, the establishment charges will have to be an estimate based on the experience of similar businesses ; but at the end of the first year's trading, the Profit and Loss Account will supply very valuable information. For example, suppose the accounts on pages 308 and 309 to represent an average year's Trading and Profit and Loss Account—

Dr.	PROFIT AND LOSS ACCOUNT.				Cr.
	Factory.	Office.	Total.		
To Salaries Management ..	250		500		
" " Drawing Office ..	300	250	300		
" " Counting House ..			380		
" Directors' Fees ..		380	360		
" Rent, Rates, Taxes, & Ins. .	725	115	840		
" Gas and Water ..	95	25	120		
" Carriage ..		120	120		
" Travelling Expenses ..		150	150		
" Travellers' Salaries and Com. .		348	348		
" Trade Expenses ..		275	275		
" Bank Charges and Interest .		20	20		
" Bad Debts ..		220	220		
" Discounts ..		175	175		
" Repairs and Renewals of Plant, Machinery, etc. .	320		320		
" Depreciation.. ..	110	10	120		
	1,800	2,448	4,248		
			4,352		
			8,600		8,600
" Balance (net profit) ..					

By Trading A/c (gross profit) . 8,600

*Dr.* TRADING ACCOUNT. *Cr.*

To Stock 1st Jan., 19..	6,100			By Sales .. ..	23,120		
„ Materials Purchased	10,420			„ Stock 31st Dec.,	6,500		
„ Productive Wages	4,500			19..			
„ Balance (Gross Profit)	8,600						
	<u>29,620</u>				<u>29,620</u>		

The value of the materials consumed is found by adding to the stock at commencement the subsequent purchases, and subtracting from the total the stock at finish, thus—

Stock at start..	..	..	..	..	£ 6,100
add Purchases	..	..	..	..	10,420
					<u>16,520</u>
less Stock at finish..	..	..	..	..	6,500
<b>Materials consumed ..</b>	..	..	..	..	<u>£ 10,020</u>

Having obtained this figure, we can now proceed to find the factory cost, as under—

Materials consumed ..	..	..	..	..	£ 10,020
Productive Wages ..	..	..	..	..	4,500
					<u>14,520</u>
<b>Prime Cost ..</b>	..	..	..	..	14,520
add Factory Oncost	..	..	..	..	1,800
<b>Works or Factory Cost</b>	..	..	..	..	<u>£ 16,320</u>

By calculation, we find that the Works Expenses (£1,800) are 40 per cent. on the Wages (£4,500), and that the Administration Expenses (£2,448) are 15 per cent. on the Works Cost (£16,320). Future estimates would, therefore, be based on these percentages, thus—

Materials Consumed ..	..	..	..	..	£
Productive Wages ..	..	..	..	..	
					<u>          </u>
<b>Prime Cost ..</b>	..	..	..	..	
add Factory Oncost 40 % on Wages	..	..	..	..	
					<u>          </u>
<b>Factory Cost ..</b>	..	..	..	..	
add General Oncost 15 % on Factory Cost.	..	..	..	..	
					<u>          </u>
<b>Total Cost ..</b>	..	..	..	..	<u>£</u>

The selling price can now be fixed by adding to the total cost the percentage necessary to obtain the desired profit. It should be noted that profits are calculated on returns or sales, and *not* on cost. Thus, to obtain  $33\frac{1}{3}$  per cent. profit on our sales, we must add 50 per cent. to the cost price, to obtain 25 per cent. profit we must add  $33\frac{1}{3}$  per cent. to cost, to obtain 20 per cent. we must add 25 per cent., and so on. The estimate would then be finished as follows—

					£
Total Cost	..	..	..	..	
add 25 % to return 20 % Profit	..	..	..	..	
					<hr/>
Selling Price	..	..	..	..	£ <hr/>

Students often get confused with these percentages owing to the fact that they have learnt in arithmetic to calculate the profit always on the *cost* price, whereas in business it is based on the *selling* price.

**Terminal or Contract Cost Accounts.**—These are accounts relating to Contracts in which the costing is definite and terminating, the object being to ascertain the profit or loss on each contract undertaken. They are divided into two classes—

**Simple Contracts**, such as those of builders and contractors ; and

**Departmental Contracts**, such as those of engineers and shipbuilders.

These have been fully explained under the heading of Contracts. It remains here to deal only with the allocation of Establishment Charges over the different contracts, and with the ruling of the Cost Ledger when the Contract Accounts are not kept in the general double-entry books. As regards the **apportionment of Establishment Expenses**, there are three principal methods of doing this—

(1) In the proportion that the time worked on the contract bears to the total time worked on contracts for the period ;

(2) In the proportion that the wages paid on the contract bear to the total wages paid on contracts during the period ;

(3) In the proportion that the expenditure on the contract bears to the total expenditure on contracts for the period.

**Example.**—Suppose that at the end of the year we wished to apportion £3,720 Establishment Charges between five

contracts. Then, on the data given, the allocation as per the three different methods would be as follows—

No. of Contract.	Time.	Wages.	Total Expenditure.	ESTABLISHMENT CHARGES.		
				First Way.	Second Way.	Third Way.
	Days.	£	£	£	£	£
1	307	5,215	15,345	921	1,043	1,023
2	275	4,455	13,455	825	891	897
3	243	3,740	11,820	729	748	788
4	217	3,045	8,925	651	609	595
5	198	2,145	6,255	594	429	417
	1,240	18,600	55,800	3,720	3,720	3,720

The second method is the more usual, though some accountants consider the first way is the most accurate and reliable. The apportionment fractions for the different methods are—

$$\text{No. 1. } \frac{307}{1,240} \text{ of } £3,720, \text{ and so on ;}$$

$$\text{No. 2. } \frac{5,215}{18,600} \text{ of } £3,720, \text{ and so on ;}$$

$$\text{No. 3. } \frac{15,345}{55,800} \text{ of } £3,720, \text{ and so on.}$$

The ruling of the **Cost Book or Ledger** is shown on page 312.

**Operating or Working Cost Accounts.**—These accounts have reference to the cost of working tramways, railways, gas, water, and electric light companies, etc. A unit of cost is created in order to have a basis of comparison for the different items of expenditure. Sometimes two units are employed, so that any defects of the one basis may be remedied by the other ; for instance, in gas works, per ton of coal carbonised and per thousand cubic feet of gas sold ; on railways, per train-mile run and per ton carried. This principle is adopted by trading businesses generally, the unit of cost being £100 of sales. The various items in the Trading Account and in the Profit and Loss Account are expressed in terms of this particular unit, and thus afford a valuable means of comparison of one period with another. (See page 313.)





Example—  
Dr.

TRADING AND PROFIT AND LOSS ACCOUNT  
for the year ending 31st Dec., 19...

Cr.

[COS]

DICTIONARY OF BOOK-KEEPING

[COS]

	Per Cent. on Sales.	Amount.				Per Cent. on Sales.	By Sales ( <i>less</i> Returns) ..	Amount.				Per Cent. on Sales.	By Balance (Gross Profit) b/d																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
		6,050	15	2	3			10,070	14	5	6			16,121	9	5	6	7,040	12	11	18	11																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									
To Stock at start ..																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																															

Note.—Fractions of a £ under 10s. are ignored ; over 10s. they are counted as another £. Thus 9081 × 100 ÷ 20125 = 45·12, and so on

**Single or Output Cost Accounts.**—These are accounts drawn up for the purpose of showing the cost of a certain output of one class, such as a colliery, quarry, mine, brewery, distillery, etc., in which there is a natural unit of cost, as the ton of mineral raised, the barrel of beer brewed, etc. It is usual to find “short-period” cost accounts prepared, called **Cost Sheets**, especially with collieries, iron foundries, cement and brick-making companies, the object being to see how the cost of production compares with the market price, with a view to restricting the output if the prices and conditions are unfavourable.

### COLLIERY COST SHEET.

Item of Expenditure.	Jan., 19...						Feb., 19...					
	12,000 Tons.						11,500 Tons.					
	Cost per ton.		Amount.				Cost per ton.		Amount.			
	s.	d.					s.	d.				
WAGES—												
Colliers .. ..	2	1.61	1,280	5	6		2	2.03	1,247	5	2	
Underground .. ..		11.20	560	2	5			11.39	545	16	4	
Surface .. ..		5.98	299	4	7			6.07	290	17	8	
WORKING EXPENSES—												
Timber .. ..		2.39	119	10	8			2.63	125	14	7	
Stores .. ..		1.07	53	6	5			1.19	57	2	8	
Royalties .. ..		6.00	300					6.00	287	10		
Horse and Stable Expenses		1.51	75	8	9			1.47	70	9	10	
Repairs and Renewals ..		1.67	83	6	3			1.67	79	15	8	
Depreciation .. ..		2.91	145	14	7			2.90	139	2	9	
ESTABLISHMENT CHARGES—												
Rent, Rates, Taxes, etc. ..		1.69	84	10	6			1.74	83	9	5	
Salaries and Management ..		3.50	175					3.65	175			
Bad Debts and Discounts ..		.88	44	1	5			.86	41	5	6	
Sundry Expenses .. ..		.70	35	2	10			.68	32	9	7	
Total Cost .. ..	5	5.11	3,255	13	11		5	6.28	3,175	19	2	

It should be noted that the costs are calculated, not on the actual tons raised, but on the *saleable* tons raised. These Cost Sheets are sometimes drawn up in the form of a Trading Account, in order to arrive at the interim profit. Assume the stock of coal at the beginning and end of the period to be valued at an average price of 5s. 6d. per ton, and that 10,000 tons had been sold for £3,781 12s. 6d.; the Production Account for January would appear as follows—

COS]

## DICTIONARY OF BOOK-KEEPING

[COS

	Cost per ton.		Amount.		Total.			Average per ton.		Total.
	s.	d.						s.	d.	
WAGES—										
Colliers ..	2	1-61	1 280	5 6			Sales—	7	6-76	3 781 12 6
Underground ..		11-20	560	2 5			10,000 tons ..			
Surface ..		5-98	299	4 7			Coal Stock Increase—			
	3	6-79			2,139	12 6	2,000 tons ..	5	6-00	550
WORKING EXPENSES—										
Timber ..		2-39	119	10 8						
Stores ..		1-07	53	6 5						
Royalties ..		6-00	300							
Horse and Stable Expenses..		1-51	75	8 9						
Repairs and Renewals ..		1-67	83	6 3						
Depreciation..		2-91	145	14 7						
	1	3-55			777	6 8				
ESTABLISHMENT CHARGES—										
Rent, Rates, Taxes, etc. ..		1-69	84	10 6						
Salaries and Management ..		3-50	175							
Bad Debts and Discounts ..		.88	44	1 5						
Sundry Expenses ..		.70	35	2 10						
		6-77			338	14 9				
Total Cost ..	5	5-11			3,255	13 11	(12,000 tons)	7	2-63	4,331 12 6
Profit ..	1	9-52			1,075	18 7				
	7	2-63			4 331	12 6		7	2-63	4,331 12 6

**Multiple Cost Accounts.**—These are accounts relating to the cost of manufacturing several different commodities having little or no relation to each other as regards either cost or selling price, such as hosiery, boots, cycles, furniture, engineering specialities, agricultural implements. They are naturally very elaborate and technical, and vary greatly in method, the most usual being to create a standard unit of output and to reduce all items of cost expenditure to terms of this particular unit. A basis is thus established for comparison of material, labour, and oncost expenses.

**Process Cost Accounts.**—These are accounts designed to show the cost of preparing each separate part or process of a single manufactured article. They are applicable to chemical industries, food products, etc., in which there is conversion of material, and in which by-products arise, as in tanners, fell-mongers, etc. Each process is treated as a separate department, and the materials, labour, and oncost expenses of each process charged or allocated to it. Thus the finished process of one stage becomes the raw material of the next stage, and so on. If the processes are transferred from one department to the other at a price above cost—and this is sometimes done—each Process Account or department will then show a certain amount of profit. The by-products should have their value credited to the process in which they originate, thus reducing the cost of that particular process.

**Example—**

Dr.		NO. 1 PROCESS.						Cr.	
To Raw Material .. ..	2,000	5	6	By Transfer to No. 2 Process A/c ..	3,207	0	5		
„ Charges on do. .. ..	50	2	11						
„ Chemicals and Sundries ..	168	4	2						
„ Productive Wages .. ..	120	15	9						
„ Motive Power .. ..	327	4	3						
„ Repairs and Renewals ..	250	3	6						
„ Depreciation .. ..	240	1	10						
„ Works Expenses .. ..	50	2	6						
	3,207	0	5		3,207	0	5		

Dr.		NO. 2 PROCESS.						Cr.	
To No. 1 Process A/c .. ..	3,207	0	5	By By-Product No. 1 A/c	426	10			
„ Chemicals and Sundries ..	110	15	4	„ Transfer to No. 3 Process A/c ..	3,578	2			
„ Productive Wages .. ..	90	4	3						
„ Motive Power .. ..	210	5	6						
„ Repairs and Renewals ..	190	11	8						
„ Depreciation .. ..	150	10	7						
„ Works Expenses .. ..	45	4	3						
	4,004	12			4,004	12			

Dr.

## NO. 3 PROCESS.

Cr.

To No. 2 Process A/c ..	3,578	2		By By-Product No. 2 A/c	328	6	6
„ Chemicals and Sundries ..	82	11	6	„ Transfer to Trading			
„ Productive Wages ..	76	8	9	A/c .. .. .	3,791	0	7
„ Motive Power ..	128	4	3				
„ Repairs and Renewals ..	120	5	4				
„ Depreciation ..	94	3	8				
„ Works Expenses ..	39	11	7				
	4,119	7	1		4,119	7	1

Dr.

## BY-PRODUCT NO. 1 ACCOUNT.

Cr.

To No. 2 Process A/c ..	426	10					
-------------------------	-----	----	--	--	--	--	--

Dr.

## BY-PRODUCT NO. 2 ACCOUNT.

Cr.

To No. 3 Process A/c ..	328	6	6				
-------------------------	-----	---	---	--	--	--	--

Dr.

## CHEMICALS AND SUNDRIES.

Cr.

To Cash .. .. .	216	17		By Transfer—			
„ Sundry Creditors ..	191	2	5	No. 1 Process A/c ..	168	4	2
				No. 2 Process A/c ..	110	15	4
				No. 3 Process A/c ..	82	11	6
				„ Balance (Stock) c/d	46	8	5
	407	19	5		407	19	5
To Balance (Stock) b/d	46	8	5				

Dr.

## PRODUCTIVE WAGES.

Cr.

To Cash .. .. .	77	6	4	By Transfer—			
„ „ .. .. .	65	9	8	No. 1 Process A/c ..	120	15	9
„ „ .. .. .	76	5	5	No. 2 Process A/c ..	90	4	3
„ „ .. .. .	68	7	4	No. 3 Process A/c ..	76	8	9
	287	8	9		287	8	9



Dr.	MOTIVE POWER.						Cr.
To Stock (Coal, Coke, and Sundries) .. ..	400	12	9	By Transfer—			
„ Purchases .. ..	520	16	8	No. 1 Process A/c ..	327	4	3
„ Wages .. ..	170	4	5	No. 2 Process A/c ..	210	5	6
„ Gas and Electricity ..	82	11	10	No. 3 Process A/c ..	123	4	3
„ Water .. ..	45	3	7	Balance (Stock) c/d	553	15	3
	1,210	9	3		1,210	9	3
To Balance (Stock) b/d	553	15	3				

## Dr. REPAIRS AND RENEWALS OF PLANT, MACHINERY, ETC. Cr.

To Stores A/c .. ..	309	10	11	By Transfer—			
„ Purchases .. ..	170	15		No. 1 Process A/c ..	250	3	6
„ Wages .. ..	80	14	7	No. 2 Process A/c ..	100	11	8
				No. 3 Process A/c ..	120	5	4
	561	0	6		561	0	6

Dr.

## DEPRECIATION.

Cr.

To Plant, Machinery, Tools, etc. .. ..	484	16	1	By Transfer—			
				No. 1 Process A/c ..	240	1	10
				No. 2 Process A/c ..	150	10	7
				No. 3 Process A/c ..	94	3	6
	484	16	1		484	16	1

Dr.

## WORKS EXPENSES.

Cr.

To Sundries .. ..	35	10		By Transfer—			
„ Cash .. ..	30	15		No. 1 Process A/c ..	50	2	6
„ Sundries .. ..	38	4	3	No. 2 Process A/c ..	45	3	3
„ Cash .. ..	30	9	1	No. 3 Process A/c ..	39	11	7
	134	18	4		134	18	4

In the above *pro formâ* example the process and by-product accounts have been given a number for the sake of distinction. In actual practice they would, of course, be designated by their proper technical name, as, for instance, the chemical processes of reduction, concentration, crystallisation, purification, etc.

**Departmental Cost Accounts.**—These are accounts relating to the cost of working each department, as in a factory, the

object being to ascertain the result of the different departments rather than the actual cost of the article manufactured, as in the businesses of spinners, weavers, etc. The accounts are similar to ordinary departmental accounts; materials, productive wages, and direct expenses being specifically charged to the departments. The indirect expenses are allocated according to the amount of floor space occupied by each department, or according to the amount of wages paid, or in proportion to the respective turnovers of the departments. (See DEPARTMENTAL ACCOUNTS.)

**Units of Output or Earning.**—The following units of output or earning are generally in use—

*Breweries*—per barrel of beer brewed.

*Brickworks*—per 1,000 bricks made.

*Iron and Steel Manufacturers, Smelters, etc.*—per ton per make produced.

*Collieries*—per saleable ton of coal raised.

*Mines*—per ton of ore raised.

*Hotels*—per visitor per day.

*Gasworks*—per ton of coal carbonised; and per 1,000 cubic feet of gas sold.

*Waterworks*—per 1,000 gallons of water consumed.

*Electric Light Works*—per ton of coal used, and per 100 Board of Trade units of electricity sold.

*Railways*—per ton carried, and per train-mile run.

*Tramways*—

Electric Traction—per k.w. hour, and per car mile run.

Horse Traction—per car mile run, and per passenger carried.

*Trading Businesses* with a miscellaneous output—per £100 of sales.

**Reconciliation of Cost Accounts with the Financial Books.**—Cost Accounts should be kept on double-entry principles for the purpose of having a check upon the arithmetical accuracy of the work especially as they involve so much detail. Costing, however, is often the work of an entirely separate department, and hence the cost accounts may form no part of the general double-entry books. Reconciliation may easily be effected by means of an adjustment account, called "**Cost Ledger Account**," opened in the General Ledger. All the detail of the Cost Ledger must be posted in total periodically to the Adjustment Account, both debits and credits; and the balance of this account will agree with the net result of

the balances in the Cost Ledger. If it is desired to make the latter self-balancing, the Adjustment Account may be copied into it, transposing the debits and credits, and changing the name of the account to "**General Ledger Account.**"

**Example** (suitable for Contracts)—

Dr.	COST LEDGER ACCOUNT.						Cr.
To Stores Used A/c.. ..	..						By Stores Returned ..
" Special Materials ..	..						" Plant Returned ..
" Plant Used A/c ..	..						" Contracts A/c ..
" Wages .. ..	..						" Work-in-Progress c/d
" Expenses.. ..	..						
" Establishment Charges..	..						
To Balance .. ..	..	b/d					

**COST, INSURANCE, AND FREIGHT.**—A term used, more especially in its abbreviated form, C.I.F., to denote that the price quoted includes the cost of the goods plus insurance and freight charges.

**COUNCIL DRAFTS.**—These are bills drawn by the British Government upon the Indian Government and payable in rupees at the treasuries in Calcutta, Bombay, or Madras. The Indian Government has to pay the British Government large sums of money for interest and other charges, and, when the state of the revenue permits, advises the India Council in London to draw on it in discharge of those liabilities. The Secretary of State for India invites, by means of advertisement, tenders for so many lacs of rupees. Bankers and merchants having remittances to make to India buy these drafts, or arrange for telegraphic transfers, paying for them with gold. This procedure obviates the necessity for transmitting bullion from one country to the other.

**COUNTERFOIL.**—That part of a cheque, receipt, order, etc., which is retained in the cheque book, receipt book, order book, etc., and on which is entered, for future reference, short particulars of the cheque, receipt, order, etc., sent away. Where counterfoils are not in use, carbon copies of documents are generally kept.

**COUPON.**—The word denotes a cutting, from the French *couper* = to cut. Coupons are warrants for the payment of interest falling due upon Debentures to Bearer. A sheet of coupons is attached to the debenture bond, so that as the due dates arrive, the appropriate coupon may be cut off and

presented for payment. On each coupon is stated the amount of interest due and the date of payment. Bankers receive and collect coupons in the same way as cheques; the interest due, however, will only be received *net*, that is, less income tax at the rate or rates current during the period covered by the coupon. When further coupons are required, a voucher called a **talon**, attached to the debenture, must be filled up and sent in. The following is a specimen coupon—

<u>COUPON No. 20</u>	
RETROP MANUFACTURING CO., LTD.	
5 % <i>First Mortgage Debentures to Bearer</i>	
Debenture No. 101	£100
<p>Coupon for £2 : 10 : 0 (<i>less</i> income tax), half-year's Interest due 1 July, 19.., payable at the SAFE BANK, LTD., HILLCORN, LONDON, E.C., or at the Registered Office of the Company.</p>	
A. SHEPHERD, <i>Secretary.</i>	
£2 : 10 : 0	

Coupons are also used for the payment of dividends on shares represented by Share Warrants to Bearer. The coupons have usually to be left three clear days for the purpose of examination. (See also **DEBENTURES**.)

**COUNTERSIGN—COUNTER-SIGNATURE.**—An additional signature in support of the genuineness of the principal signature or signatures.

**CR.**—An abbreviation for **Creditor**, placed at the top of a Ledger account on the right-hand side.

**CREDIT.**—The right-hand side of a Ledger account. The time allowed before payment will be required, as *three months' credit*.

**To Credit.**—To make an entry on the right-hand side of an account.

**CREDIT BALANCE.**—(See **BALANCE**.)

**CREDIT NOTE.**—A statement (generally in red ink) giving particulars of any allowance made to a person in respect of goods returned, short weight, overcharge, etc. The following is an example—

CREDIT NOTE.									
Mr. R. Tatler in Credit with <b>ALFRED ROBINSON.</b>					LONDON, E.C., 20th Dec., 19...				
By 10 yards Grey Cloth returned defective ..					3/11				
								1	19
								2	
								1	19
								2	

**CREDITOR** (abbreviated **Cr.**).—One to whom money is owing ; the giving part of a transaction.

**Creditors for Rent.**—(See STATEMENT OF AFFAIRS.)

**Creditors on Bills.**—The total of the Bills Payable not yet matured.

**Creditors on Open Accounts.**—Same as Sundry Creditors.

**Cash Creditor.**—A Creditor for *money* lent.

**Fully Secured Creditors**—**Partly Secured Creditors**—**Preferential Creditors**—**pre-Preferential Creditors.**—(See STATEMENT OF AFFAIRS.)

**Sundry Creditors.**—The total of the Bought Ledger balances.

**Trade Creditors.**—Creditors for *goods* supplied.

**Unsecured Creditors.**—(See STATEMENT OF AFFAIRS.)

**CREDITORS' LEDGER.**—Same as Bought or Purchases Ledger.

**CRORE.**—(See RUPEE.)

**CROSSING OF CHEQUE OR BILL.**—**General Crossing**—**Special Crossing.**—(See AND CO., CHEQUE.)

**CUM DIV.**—An abbreviation for **cum dividend**, which means that the purchaser of the stocks or shares is buying also the right to the dividend which is due or accruing.

**CUMULATIVE PREFERENCE SHARES.**—(See under COMPANY.)

**Arrears of Dividend on ditto.**—(See ARREARS.)

**CURRENT ACCOUNT.**—(See BANK CURRENT ACCOUNT, DRAWING ACCOUNT, and ACCOUNT CURRENT.)

**D/A.**—Documents attached ; term used in connection with documentary bills.

**D/D.**—Demand Draft. (See BILL OF EXCHANGE.)

**d/d.**—Days after date. (See BILL OF EXCHANGE.)

**d/s.**—Days after sight. (See BILL OF EXCHANGE.)

**DAMAGE BY FIRE OR WATER.**—A separate account should be opened for all such damage sustained, a Journal entry being made thus—

Damage by Fire (or Water)	<i>Dr.</i>
To Goods	<i>Cr.</i>
,, Furniture and Fixtures	<i>Cr.</i>

If the goods or property are not insured, then the account will be closed by transfer to Profit and Loss; but if the damage is covered by insurance, the money received from the Insurance Company will be credited to this account, and only the balance written off to Profit and Loss. (See also FIRE ACCOUNT.)

**DAMAGES FOR BREACH OF CONTRACT.**—(See CONTRACT ACCOUNTS.)

**DATING FORWARD.**—This is the practice adopted in some trades of dating the invoice for goods two or three months ahead of the date on which the goods are actually sold, the time for payment being counted from the forward date. It does not affect the books, except that both dates must be carried through to the Ledger; otherwise the customer will be asked for payment before the proper time. It simply gives the buyer an extra period of credit by allowing him the use of the goods at an earlier date.

**DAY BOOK.**—(See SALES BOOK.)

**DAYS OF GRACE.**—(See BILL OF EXCHANGE, INSURANCE AND ASSURANCE ACCOUNTS.)

**DEAD CHARGES.**—Fixed Charges. (See COST ACCOUNTS.)

**DEAD RENT.**—(See ROYALTIES.)

**DEATH DUTIES.**—These consist of (1) Estate Duty, (2) Legacy Duty, (3) Succession Duty, all of which are explained under their respective headings.

**DEBENTURE (CUSTOMS).**—A certificate issued by the Customs Authorities to a merchant, entitling him to payment of the drawback on goods which he has exported.

**DEBENTURE.**—(See COMPANY.)

**Bearer Debenture.**—(See COMPANY.)

**Mortgage Debenture.**—(See COMPANY.)

**Naked or Simple Debenture.**—(See COMPANY.)

**Perpetual or Irredeemable Debenture.**—(See COMPANY.)

**Registered Debenture.**—(See COMPANY.)

**Terminable or Redeemable Debenture.**—(See COMPANY.)

**DEBENTURE APPLICATION FORM.**—The specimen is shown on page 324.



**RETROP MANUFACTURING COMPANY, LIMITED.****FORM OF APPLICATION FOR FIRST MORTGAGE DEBENTURES**

Issued in 500 Bonds of £100 each, carrying Interest at the rate of £5 per cent. per annum.

To the Directors of the RETROP MANUFACTURING COMPANY, LIMITED.

Gentlemen,—

Having paid to the Company's Bankers the sum of £....., being a deposit of **Ten per cent.** on £..... First Mortgage Debentures in the above-named Company, I request you to allot me such Debentures upon the terms of the Company's Prospectus, and I agree to accept the same, or any smaller amount that may be allotted to me, and I agree to pay the further instalments as provided by and at the dates specified in the said Prospectus, and I authorise you to register me as the holder of the said Debentures.

*Signature*.....

*Name in full* .....  
(State whether "Mr.," "Mrs.," or "Miss," and Title, if any.)

*Address in full* .....  
.....  
.....

*Occupation*.....

*Date*....., 19..

All Cheques to be made payable to the Company's Bankers. A separate Cheque must accompany each separate Application.

This sheet should be forwarded **ENTIRE** to the Company's Bankers, the **SAFE BANK, LIMITED**, Hillcorn, London, E.C., together with Cheque.

**RETROP MANUFACTURING COMPANY, LIMITED.****BANKERS' RECEIPT.**

RECEIVED this.....day of....., 19.., from..... for the credit of the RETROP MANUFACTURING CO., LTD., the sum of £....., being a deposit of Ten per cent. on £..... First Mortgage Debentures in the above-named Company.

For the **SAFE BANK, LIMITED**,

Stamp.

£ : :

Cashier.

This Receipt, when returned from the Bankers, to be preserved by the Applicant for exchange in due course for Debentures.

**DEBENTURE BOND.**—The following is a specimen—

**DEBENTURE BOND.**

**RETROP MANUFACTURING COMPANY, LIMITED.**

(Incorporated under the Companies Acts, 1908 to 1917.)

**Registered Office : 154 King Rufus Street, London, E.C.**

ISSUE OF £100,000 FIRST MORTGAGE DEBENTURES,  
in 1,000 Bonds of £100 each,  
bearing Interest at the rate of £5 per cent. per annum.

**No. 676.**

**DEBENTURE.**

**£100**

1. The RETROP MANUFACTURING COMPANY, LIMITED (hereinafter called "the Company"), hereby covenant to pay to the Registered Holder, on presentation of this Debenture, on the 1st day of July, 19.., or at such earlier date as the principal moneys hereby secured shall become payable, at the Registered Office of the Company or at their Bankers, the sum of One Hundred Pounds.

2. The Company will in the meantime pay to the Registered Holder for the time being Interest on the said £100 at the rate of £5 per cent. per annum by equal half-yearly payments on the 30th of June and the 31st December in each year, the first of such payments to be made on the 31st December, 19..

3. The Company hereby charges, by way of floating security, all its real and personal property (present and future), its stock-in-trade, goodwill, and all the undertaking, also its uncalled Capital with the payment of the principal and interest.

4. The principal moneys hereby secured shall immediately become payable if the Company make default for a period of one calendar month in the payment of any interest hereby secured.

5. This Debenture is one of a series of 1,000 ranking equally, and is issued subject to the conditions endorsed hereon, which are deemed to be part of it.

**GIVEN UNDER THE COMMON SEAL OF THE COMPANY**

this.....day of....., 19..



..... }  
..... } *Directors.*

.....  
*Secretary.*

**DEBENTURE CAPITAL.**—The money borrowed by a limited company by means of Debentures. Some accountants object to the use of the word Capital in this connection, and think the term ought to be restricted to the amount subscribed by the shareholders.

**DEBENTURE DISCOUNT.**—This is a loss to the Company, and a separate account is opened for it in the Ledger. If there are other expenses, such as brokers' and underwriting commission, etc., the whole is debited to an account entitled "**Cost of Issue of Debentures.**" By Section 90 of the C.C.A., 1908, the amount of such commission and discount must be separately stated on the Balance Sheet until the whole is written off. If the debentures are irredeemable, the amount may be capitalised, or gradually extinguished like Preliminary Expenses. When the debentures are redeemable, the amount is usually written off over the period of the loan; thus, if the money is repayable at the end of ten years, then one-tenth of the Cost of Issue, or Discount, will be written off each year. But if the debentures are repayable by annual drawings of a stated amount, the discount should be written off each year in proportion to the amount of debentures outstanding; so that the years which have the use of the larger amount of debentures should be charged with the larger proportion of discount. The debentures themselves will appear in the Balance Sheet at their nominal or face value.

**Example 1.**—A Limited Company issues £10,000 Debentures, at a discount of 5 per cent., repayable at the end of five years. Show the Discount Account in the Ledger for this period.

<i>Dr.</i>		DEBENTURE DISCOUNT.				<i>Cr.</i>	
Year.							
1	To Debentures ..	500			1	By Profit & Loss $\frac{1}{5}$ ..	100
						„ Balance c/d ..	400
		500					500
2	To Balance b/d ..	400			2	By Profit & Loss ..	100
						„ Balance c/d ..	300
		400					400
3	To Balance b/d ..	300			3	By Profit & Loss ..	100
						„ Balance c/d ..	200
		300					300
4	To Balance b/d ..	200			4	By Profit & Loss ..	100
						„ Balance c/d ..	100
		200					200
5	To Balance b/d ..	100			5	By Profit & Loss ..	100

**Example 2.**—A Limited Company issues £10,000 Debentures, at a discount of 5 per cent., repayable by annual drawings of £2,000. Show the Discount Account in the Ledger for the period of duration of the Debentures.

					£
The Debentures outstanding 1st year will be					10,000
"	"	"	2nd	"	8,000
"	"	"	3rd	"	6,000
"	"	"	4th	"	4,000
"	"	"	5th	"	2,000
Total .. ..					<u>£30,000</u>

Therefore,  $\frac{10}{30}$ ths of the discount must be written off in the first year,  $\frac{8}{30}$ ths the second year, and so on, thus—

Dr.				DEBENTURE DISCOUNT.				Cr.			
Year.				Year.							
1	To Debentures ..	500		1	By Profit & Loss ..	166	13	4			
					" Balance c/d ..	333	6	8			
		500				500					
2	To Balance b/d ..	333	6	2	By Profit & Loss ..	133	6	8			
					" Balance c/d ..	200					
		333	6			333	6	8			
3	To Balance b/d ..	200		3	By Profit & Loss ..	100					
					" Balance c/d ..	100					
		200				200					
4	To Balance b/d ..	100		4	By Profit & Loss ..	66	13	4			
					" Balance ..	33	6	8			
		100				100					
5	To Balance b/d ..	33	6	5	By Profit & Loss ..	33	6	8			

**DEBENTURE HOLDER.**—A person who holds debentures or debenture stock in a limited company.

**Register of Debenture Holders.**—(*Specimen on page 328.*)

**Register of Debenture Stockholders.**—(*Specimen on page 329*)

**DEBENTURE INTEREST.**—The Interest payable half-yearly on the Debentures. In the accounts of ordinary limited companies such interest is charged to Profit and Loss Account ; but in the double account system it is charged to the Net Revenue or Appropriation Account.







**DEBENTURE INTEREST ACCOUNT.**—Debenture Interest is usually charged to a Debenture Interest Account, which is closed eventually by transfer to Profit and Loss. A Journal entry is made thus—

Debenture Interest	<i>Dr.</i> £600	
To Debenture Holders	<i>Cr.</i>	£450
„ Income Tax Account	<i>Cr.</i>	£150

the Company being entitled to deduct income tax at the current rate from the Interest before paying it. A cheque is drawn for the net amount of Interest payable, and posted to the debit of Debenture Holders Account, thus closing it. This amount of money is paid in to a Debenture Interest Account at the Company's Bank, and cheques or warrants drawn on this Account are sent to the individual debenture holders for their respective portions. If all the cheques are not cashed, there will be a balance in this Account, and this will be shown on the liabilities' side of the Company's Balance Sheet at balancing time, as "**Unclaimed (or Unpaid) Debenture Interest,**" and on the assets' side as "**Cash at Bank on Debenture Interest Account,**" or the cash may be merged with the other cash at bank. If the number of Debenture Holders is not very large, a separate Bank Account may not be opened, but cheques for Debenture Interest may be drawn on the ordinary Bank Account.

In examination work the student often finds in the Trial Balance an entry similar to this—

Debenture Interest (less tax at 5/-)    ..    ..    ..    £450

In the Profit and Loss Account, he must raise the Debenture Interest up to its full sum by adding on to it the amount of tax, and deduct this same amount from the Rates and Taxes Account if the Company has paid its income tax for the year; if the Company has not done so, then the amount of the tax will appear on the liabilities' side of the Balance Sheet thus—

Income Tax Account (credit balance)    ..    ..    ..    £150

The amount of the tax is found as follows: The tax being 60d. in the £, every 240 pence becomes 180 pence. By taking  $\frac{60}{240}$  or  $\frac{1}{4}$  of £450 we shall obtain the amount of the tax, namely, £150, to add back to the Debenture Interest, thus raising the latter to the original sum of £600.

**DEBENTURE INTEREST BOOK.**—A book giving particulars concerning the individual Debenture Holders, their

names, addresses, amount of debentures held, amount of interest due, tax deductible, and net interest payable. The following is a specimen—

DEBENTURE INTEREST BOOK.

Fol.	Name of Debenture Holder.	Amount of Debentures held.			½ year's Interest.	Tax.			Net Interest.			Remarks.

**DEBENTURE LEDGER.**—A Debenture Ledger is sometimes kept after the following style—

Dr.		W. MARSHMAN.										Cr.	
		In-terest.		Princi-pal.				In-terest.		Princi-pal.			
						1918.							
						Jan. 1	By Cash						
							(6 Debenture						
							of £100 each,						
							Nos. 201-206)			600			
						June 30	By Interest for						
							half-year at						
							5% £30 0 0						
							less						
							tax						
							at 5/- 7 10 0						
								22 10					

**DEBENTURE PREMIUM.**—This is a profit to the Company, and as it forms no part of the Debenture liability, a separate account is opened for it. Unless the articles forbid it, there is nothing to prevent the premium being taken to

Profit and Loss as a divisible profit. This practice, however, is condemned by all the leading accountants, as profits available for dividend should be profits earned. It is more usual to find the premium used to write down the value of fictitious assets such as goodwill, preliminary expenses, etc. The expenses (if any) of issuing the debentures are, of course, a first charge against the premium. In some cases the premium is transferred to the Redemption Fund, and thus used for purposes of repayment.

**DEBENTURE REDEMPTION FUND.**—(See REDEMPTION OF DEBENTURES.)

**DEBENTURE REGISTER.**—(See DEBENTURE HOLDER.)

**DEBENTURE SINKING FUND.**—(See REDEMPTION OF DEBENTURES.)

**DEBENTURE STOCK.**—(See COMPANY.)

**DEBENTURE STOCKHOLDER.**—(See DEBENTURE HOLDER.)

**DEBENTURES AS SECURITY FOR LOAN.**—When a Company issues Debentures as security for a Bank Overdraft or a Bank Loan, this fact should be noted on its Balance Sheet by entering the amount of the Debentures so issued in short, that is, not extending it into the money columns, a note being added explaining why the Debentures have been issued. Some accountants, however, prefer to make an entry debiting a Debenture Suspense Account and crediting the Debentures Account. The liability on Debentures is thus temporarily increased, and the Debenture Suspense Account figures for the time being on the assets side of the Balance Sheet. When the overdraft has been cleared off, or the loan repaid, and the Debentures released, a reversing entry is passed through the Journal, closing the Suspense Account and restoring the Debentures to their original figure.

**DEBIT.**—The left-hand side of a Ledger Account.

**To Debit.**—To make an entry on the left-hand side of a Ledger Account.

**DEBIT BALANCES.**—(See BALANCE.)

**DEBIT NOTE.**—A statement giving particulars of any charge it has become necessary to make, such as carriage paid on goods, error or omission in previous invoice, etc. (For specimen, see following page.)

**DEBTOR** (abbreviated **Dr.**).—One who owes money; the receiving part of a transaction.

**Cash Debtor.**—A debtor for money lent.

## DEBIT NOTE.

LONDON,  
13th Feb., 19..MESSRS. BROWN & SMITH,  
Hillcorn,  
Redcliffe.  
Dr. to

ARTHUR HENRY.

To Carriage paid on goods invoiced on									
7th inst. .. .. .				8	9				
„ Error in cast of invoice .. ..				10				18	9
					£			18	9

**Loan Debtor.**—Same as CASH DEBTOR.**Sundry Debtors.**—The total of the Sales Ledger balances.**Trade Debtor.**—A debtor for goods supplied.**DEBTORS FOR RENT.**—The amount owing for Rent from sub-tenants to whom any part of the office, warehouse, or shop has been sub-let.**DEBTORS' LEDGER.**—Same as SALES LEDGER.**DEBTORS ON BILLS.**—The total of the Bills Receivable not yet matured.**DEBTORS ON OPEN ACCOUNTS.**—Same as SUNDRY DEBTORS.**DEDUCTIONS ALLOWED.**—(See INCOME TAX.)**DEDUCTIONS NOT ALLOWED.**—(See INCOME TAX.)

**DEED OF ARRANGEMENT.**—A deed embodying an arrangement arrived at between a debtor and his creditors to assign all his property to a trustee for their benefit, to pay them by instalments, or to compound with them. Such a deed is governed by the Deeds of Arrangement Act, 1914. It enables a debtor to escape the publicity and stigma of the Bankruptcy Court; while the creditors obtain a bigger dividend, as the expenses consequent on bankruptcy are avoided. Such an arrangement, however, constitutes an Act of Bankruptcy, and a dissentient creditor may bring a bankruptcy petition against the debtor. Should the debtor be declared bankrupt within three months of the execution of the deed, the latter becomes void against the trustee in bankruptcy. Owing to this contingency, the trustees under

deeds generally allow three months to elapse before distributing any of the assets realised.

**DEED OF PARTNERSHIP.**—(See PARTNERSHIP ACCOUNTS.)

**DEFERRED ANNUITY.**—A yearly payment during the life of a person, but not commencing until some stated future date. Such annuities may be purchased by means of periodical instalments or by payment of one lump sum.

**DEFERRED CREDITORS.**—(See STATEMENT OF AFFAIRS.)

**DEFERRED PURCHASE SYSTEM.**—(See HIRE-PURCHASE SYSTEM.)

**DEFERRED SHARES.**—(See COMPANY.)

**DEFICIENCY.**—In book-keeping, excess of liabilities over assets.

**DEFICIENCY ACCOUNT.**—(See STATEMENT OF AFFAIRS.)

**DEL CREDERE AGENT.**—(See CONSIGNMENT.)

**DEL CREDERE COMMISSION.**—(See CONSIGNMENT.)

**DEMAND DRAFT.**—Same as SIGHT DRAFT.

**DEMAND, ON.**—(See BILL OF EXCHANGE.)

**DEMONSTRATIVE LEGACY.**—(See LEGACY.)

**DEPARTMENTAL ACCOUNTS.**—These are accounts relating to a business having several departments, it being desired to ascertain the trading results of each class of goods, or department, separately. This necessitates analysing the purchases and sales, and involves the keeping of Departmental Purchases and Sales Books. The following are examples—

#### DEPARTMENTAL PURCHASES BOOK.

Date.	Name.	Fol.	Total.	Dept. 1.	Dept. 2.	Dept. 3.	Dept. 4.

#### DEPARTMENTAL SALES BOOK.

Date.	Name.	Fol.	Total.	Dept. 1.	Dept. 2.	Dept. 3.	Dept. 4.

Similar rulings would be required for the Returns Inward and the Returns Outward Books. The tabular principle is sometimes extended to the Ledger Accounts, thus—

[illegible]

The Purchases, Sales, and Returns Accounts would be ruled in similar fashion. If the business is a manufacturing one, the wages and manufacturing charges would be dissected, and each department debited with its proper proportion, separate Ledger Accounts being opened for each department's wages, etc. At balancing time, therefore, it becomes possible by means of a tabular Trading Account to ascertain the *gross* profit of each department. Some businesses are content with this ; others desire to arrive at the *net* profit of each department. The business taken as a whole might be yielding a satisfactory net profit, and yet one particular department might be running at a loss. Only departmental Profit and Loss Accounts would reveal this fact. Such a decided advantage, therefore fully compensates for the extra work involved in analysing the transactions and in keeping additional ledger accounts. The indirect or selling expenses are allocated to the departments either according to the amount of floor space occupied by each, or in proportion to the turnovers of the departments. It is seldom possible to arrive at the exact amount by means of direct analysis, and the turnover method is considered to yield the fairest result. Where a Departmental Trading Account is not desired, the ledger account of each department will be in simple form.



## Example—

<i>Dr.</i>		" A " DEPARTMENT.										<i>Cr.</i>	
To Stock .. ..	..											By Sales .. ..	..
" Purchases .. ..	..											" Returns .. ..	..
" Carriage .. ..	..											" Stock .. ..	c/d
" Returns .. ..	..												
" Wages .. ..	..												
" P. & L. (gross profit)	..												
To Balance .. ..	b/d												

But where a Departmental Trading Account is required, the ledger accounts will be more elaborate. They will either be in tabular form, or separate accounts, thus—

<i>Dr.</i>		STOCK, DEPARTMENT "A."										<i>Cr.</i>	

<i>Dr.</i>		SALES, DEPARTMENT "A."										<i>Cr.</i>	

<i>Dr.</i>		WAGES, DEPARTMENT "A."										<i>Cr.</i>	

**Example.**—From the following particulars prepare Departmental Trading and Profit and Loss Account for the year ending 31st Dec., 19.., apportioning the expenses between the departments in proportion to their respective turnovers.

	£
Stock (Raw Materials and Finished Goods)—	
A Dept. 1st Jan.   ..   ..   ..   ..   ..   ..	8,000
B Dept. 1st Jan.   ..   ..   ..   ..   ..   ..	7,000
Purchases (Raw Materials) A Dept.   ..   ..   ..   ..   ..   ..	20,000
"   (   "   "   ) B   ..   ..   ..   ..   ..   ..	15,000
Sales A Dept...   ..   ..   ..   ..   ..   ..	50,000
"   B   "   ..   ..   ..   ..   ..   ..	30,000
Exhibition Expenses..   ..   ..   ..   ..   ..   ..	1,920
Wages—A Dept.   ..   ..   ..   ..   ..   ..   ..	4,000
Travellers' Commission and Expenses   ..   ..   ..   ..   ..   ..	5,400
Wages—B Dept.   ..   ..   ..   ..   ..   ..   ..	2,300
Rent, Rates, and Taxes   ..   ..   ..   ..   ..   ..   ..	1,000
Furniture and Fixtures   ..   ..   ..   ..   ..   ..   ..	1,280
Salaries   ..   ..   ..   ..   ..   ..   ..	3,600
Working Plant and Utensils   ..   ..   ..   ..   ..   ..   ..	55,600
Insurance (Fire and Employers' Liability)	
(£40 of this is prepaid) ..   ..   ..   ..   ..   ..	800
Bad Debts Reserve, 1st Jan., 19....   ..   ..   ..   ..   ..	750
Horses, Harness, Motor Vans and Vehicles   ..   ..   ..   ..   ..   ..	8,000
Directors' Fees   ..   ..   ..   ..   ..   ..   ..	2,000
Sundry Debtors   ..   ..   ..   ..   ..   ..   ..	23,000
Postage, Telegrams, and Bill Stamps   ..   ..   ..   ..   ..   ..	920
Difference in Exchange ( <i>Dr.</i> balance)   ..   ..   ..   ..   ..   ..	40
Sundry Expenses   ..   ..   ..   ..   ..   ..   ..	2,800
Bad Debts   ..   ..   ..   ..   ..   ..   ..	832
Stationery, Sample Books, and Catalogues (£500 of these are still in stock) ..   ..   ..   ..   ..   ..   ..	3,500
Debenture Interest ..   ..   ..   ..   ..   ..   ..	600
Discounts on Purchases   ..   ..   ..   ..   ..   ..   ..	1,750
"   "   Sales ..   ..   ..   ..   ..   ..   ..	3,270
Stable and Motor Expenses..   ..   ..   ..   ..   ..   ..	640

Depreciate Working Plant, etc., 10 per cent. ; Horses, Harness, Motor Vans, etc., 10 per cent. ; Furniture,  $2\frac{1}{2}$  per cent. Make a Reserve of 5 per cent. on Sundry Debtors. Stock of Raw Materials and Finished Goods on 31st Dec., 19..., was—

A Dept. £10,000 ; B Dept. £8,000.

(For solution, see page 338.)

**DEPARTMENTAL CHARGES.**—In Cost Accounts the same as Manufacturing Expenses.

**DEPARTMENTAL COST ACCOUNTS.**—(See **COST ACCOUNTS.**)

**DEPOSIT ACCOUNT.**—(See **BANK DEPOSIT ACCOUNT.**)

**DEPOSIT RECEIPT.**—The receipt given by a bank for money lent at interest. It needs no stamp and is not transferable.

**DEPÔT ACCOUNTS.**—(See **BRANCH ACCOUNTS.**)

Dr.

## TRADING AND PROFIT AND LOSS ACCOUNT

For the year ending 31st December, 19...

Cr.

DEP]

## DICTIONARY OF BOOK-KEEPING

[DEP

	" A " Dept.	" B " Dept.	Total.		" A " Dept.	" B " Dept.	Total.
To Stock 1st Jan. ..	8,000	7,000	15,000	By Sales ..	50,000	30,000	80,000
" Purchases ..	20,000	15,000	35,000	" Stock 31st Dec. ..	10,000	8,000	18,000
" Wages ..	4,000	2,000	6,000				
" Balance Gross Profit)	28,000	14,000	42,000				
	60,000	38,000	98,000		60,000	38,000	98,000
To Travellers' Comm. & Exps ..	( $\frac{8}{3}$ )	( $\frac{8}{3}$ )	5,400	By Balance (Gross Profit) ..	28,000	14,000	42,000
" Rent, Rates, Taxes, etc. ..	3,375	2,025	1,000				
" Salaries ..	625	375	3,600				
" Insurance (£800-£40) ..	2,250	1,350	760				
" Directors' Fees ..	475	285	2,000				
" Postage Telegrams and Bill Stamps ..	1,250	750	920				
" Exhibition Expenses ..	575	345	1,920				
" Sundry Expenses ..	1,200	720	2,800				
" Stationery & Samples (£3,500-£500)	1,750	1,050	3,000				
" Discount (£3,270-£1,750) ..	1,875	1,125	1,520				
" Stable and Motor Expenses.	950	570	640				
" Debenture Interest ..	400	240	600				
" Difference in Exchange ..	375	225	40				
" Bad Debts ..	25	15	832				
" " Reserve (£1,150-£750)	520	312	400				
" Depreciation—	250	150	5,560				
" Working Plant, 10% £55,600	3,475	2,085	800				
" Horses, Motors, &c., 10% £8,000	500	300	32				
" Furniture, 2½% £1,280 ..	20	12	10,176				
" Balance (Net Profit) ..	£,110	2,066	42,000				
	28,000	14,000			28,000	14,000	42,000

Note—  
 " A " Dept. =  $\frac{4}{5}$  or 62.5 %  
 " B " Dept. =  $\frac{3}{8}$  or 37.5 %

**DEPRECIATION.**—Depreciation is the gradual decrease in value of an asset from any cause. It denotes a *permanent* decrease in value, and must not be confounded with **fluctuation**, which indicates merely a *temporary* shrinkage in value. It is a much more comprehensive term than **wear and tear**, which signifies loss of value from one cause, namely, use; depreciation includes loss of value arising not only from wear and tear, but from all other causes.

**Causes of Depreciation.**—The causes of depreciation are—

(1) Ordinary, inherent, or internal, such as wear and tear of wasting assets arising through use or working, *e.g.*, buildings, plant.

(2) Extraordinary or external, such as obsolescence in the case of machinery, effluxion or expiration of time in the case of a lease or patent, a fall in market price in the case of investments.

**Reasons for Charging Depreciation.**—The object of depreciating assets is that they shall show on the Balance Sheet at their true value on that date; otherwise, the assets would be overstated and the Balance Sheet would be a false representation of affairs. Further, assets such as plant and machinery are held for the purpose of earning income, and the loss arising on those assets through wear and tear is undoubtedly a loss incurred in the earning of such income, and should equitably be charged or set off against it. Again, if depreciation is not provided for by charges against Revenue, fresh capital will have to be raised whenever the necessity for replacing the asset arises.

**Special Terms used in Connection with Depreciation.**—The **Life** of an asset is the number of years that it will continue to be usable or productive. Some assets at the end of their life have no value at all, such as a lease; other assets, such as plant and machinery, have a **Residual** or **Break-up Value**, that is, the value of the material as scrap iron. Machinery is said to be **scrapped** or **thrown on the scrap heap** when it is discarded at the end of its period of usefulness, and also when it has been superseded by newer and more efficient machinery. In certain businesses, the possibility of **Obsolescence**, *i.e.*, machinery being rendered obsolete by later and better inventions which will do the work quicker and cheaper, is a very serious consideration and influences largely the rate of depreciation. Any loss sustained through obsolescence is

charged to Profit and Loss, and spread over two or three years if the amount is very large.

**Entries for Depreciation in the Books of Account.**—To depreciate, in the book-keeping sense of the term, means to write down the value of assets. This is done by means of a Journal entry debiting to a Depreciation Account the amount to be written off, and crediting it to the account of the Asset, thus reducing the book value of the latter. The Depreciation Account itself is closed ultimately by transfer to Profit and Loss.

**Methods of Depreciation.**—There are six different methods of charging or providing for depreciation—

- (1) Fixed Instalment Method.
- (2) Diminishing Balance Method.
- (3) Annuity System.
- (4) Depreciation Fund Principle.
- (5) Insurance Policy Method.
- (6) Revaluation Process.

(1) **Fixed Instalment Method.**—Under this system a fixed proportion of the original capital outlay is written off annually to reduce the asset to zero or residual value at the end of the period, repairs and small renewals being debited to Profit and Loss. This method is suitable for Patents, and is sometimes adopted for short leases which involve little capital outlay, and also for Plant and Machinery. For instance, if we had a Patent with fourteen years to run, we could write off  $\frac{1}{14}$ th of the original cost every year; and at the end of that time, the balance of the Patent Account would be extinguished. Again, suppose we have purchased machinery at a cost of £5,000, that its life is ten years, and that its break-up value is £500. Then £4,500 must be written off in ten years, that is, £450 each year. Or, looking at it from another point of view, we have to write off  $\frac{4500}{5000}$  or  $\frac{9}{10}$  of the amount, that is, 90 per cent., in ten years; therefore, 9 per cent. of the original cost must be written off each year. The disadvantage of this method for Plant and Machinery is that while the depreciation remains constant, there is an increasing charge to Revenue during the life of the asset; as in the first few years the repairs are light, while in the later years they may be very heavy. Further, any additions to the Plant and Machinery would throw out the original calculation and a fresh one would have to be made.

**Example.**—A Lease is purchased for a term of four years

by payment of £400. Show how the Lease Account would appear in the Ledger during this period, depreciation being written off by equal instalments each year.

Dr.				LEASE.				Cr.			
Year.					Year.						
1	To Cash .. ..	400			1	By Depreciation ..	100				
						„ Balance c/d ..	300				
		400					400				
2	To Balance b/d ..	300			2	By Depreciation ..	100				
						„ Balance c/d ..	200				
		300					300				
3	To Balance b/d ..	200			3	By Depreciation ..	100				
						„ Balance c/d ..	100				
		200					200				
4	To Balance b/d ..	100			4	By Depreciation ..	100				

Note.—Depreciation is  $\left(\frac{400}{400} \times \frac{100}{1}\right) = 100\%$  in 4 years, or at the

rate of 25 % per annum on the original cost. A Journal entry would be necessary every year for four years, thus—

Depreciation	Dr. £100
To Lease	Cr. £100

and the amount of the Lease Account not written off would appear as an asset on the Balance Sheet.

(2) **Diminishing Balance Method.**—Under this method a fixed rate per cent. on the reducing annual balance of the Asset Account is written off each year, in order to reduce the asset to residual value when its term of usefulness for revenue-earning purposes has expired. All small repairs and renewals which become necessary during the life of the asses are, as under the first method, debited to Profit and Lost. This system is generally adopted for Machinery and Plant, Furniture, Fixtures, Fittings, etc., as it tends to give a fairly even charge against Revenue each year. For while depreciation is heavy during the first few years, this is counterbalanced by the repairs being light; and in the later years when repairs are heavy, this is counterbalanced by the decreasing charge for depreciation.

**Example 1.**—Machinery is bought for £1,000. Its life is estimated to be six years, and its break-up value at the end of this period £178. Show the Machinery Account for the



six years, writing off depreciation at a fixed rate per cent. on the diminishing or reducing value of the asset.

The rate per cent. can be found by means of the following formula—

$$(a) \quad P \times \left( \frac{100 - p}{100} \right)^n = RV \quad \text{or} \quad (b) \quad 100 \left\{ 1 - \left( \frac{RV}{P} \right)^{\frac{1}{n}} \right\}$$

where  $P$  denotes the principal,  $p$  the required percentage,  $n$  the number of years, and  $RV$  the residual value.

In this case (a) we have—

$$1,000 \times \left( \frac{100 - p}{100} \right)^6 = 178,$$

and, finally—

$$p = 100 - 100 \sqrt[6]{\cdot 178} = 100 - 100 (\cdot 7500),$$

therefore :

$$p = 100 - 75 = 25 \text{ per cent. (approx.).}$$

Dr.				MACHINERY.				Cr.			
Year.					Year.						
1	To Cash .. ..	1,000			1	By Depreciation ..	250				
						„ Balance c/d ..	750				
		1,000					1,000				
2	To Balance b/d ..	750			2	By Depreciation ..	187	10			
						„ Balance c/d ..	562	10			
		750					750				
3	To Balance b/d ..	562	10		3	By Depreciation ..	140	12	6		
						„ Balance c/d ..	421	17	6		
		562	10				562	10			
4	To Balance b/d ..	421	17	6	4	By Depreciation ..	105	9	5		
						„ Balance c/d ..	316	8	1		
		421	17	6			421	17	6		
5	To Balance b/d ..	316	8	1	5	By Depreciation ..	79	2			
						„ Balance c/d ..	237	6	1		
		316	8	1			316	8	1		
6	To Balance b/d ..	237	6	1	6	By Depreciation (Adjustment of 5d.)	59	6	1		
						„ Balance c/d ..	178				
		237	6	1			237	6	1		
	To Balance b/d ..	178									

Note.—In this case we can find the cube root of .178, which is .5625 (approximately), and then the square root of .5625, which is .75. In cases where the root cannot be extracted arithmetically, *e.g.*, the fifth root or the seventh root, recourse must be had to logarithms to obtain the required root. For instance, in the above example we should have

log .178 =  $\bar{1}$  .2504200  
÷ by 6 =  $\bar{1}$  .8750700 = log of .7500 (approx.).

**Depreciation of Additions to an Asset.**—The question of how to treat additions to an asset when writing off depreciation is rather a complex one, and no less than three different methods obtain. The additions are—

- (a) ignored, by writing depreciation off the balance of the Asset Account as at the *beginning* of the year ;
- (b) included, by writing depreciation off the balance of the Asset Account as at the *end* of the year ;
- (c) depreciated *proportionately*, a machine purchased about the middle of the year being written down at *half* the annual rate, and so on.

**Example 2.**—Machinery is bought for a sum of £3,000. Additions are made in June of the second year to the extent of £225, and in March of the third year to the amount of £127. Show, by means of Ledger Accounts, the various methods of dealing with these additions when writing off the annual depreciation, the rate of which is 10 per cent. on the balance of the Plant and Machinery Account.

First Way—

Dr.					MACHINERY AND PLANT.					Cr.				
Year.					Year.									
1	To Cash .. ..	3,000			1	By Depreciation								
						10% £3,000	300							
						„ Balance c/d ..	2,700							
		3,000					3,000							
2	To Balance b/d ..	2,700			2	By Depreciation								
	„ Cash .. ..	225				10% £2,700	270							
		2,925				„ Balance c/d ..	2,655							
							2,925							
3	To Balance b/d ..	2,655			3	By Depreciation								
	„ Cash .. ..	127				10% £2,655	265	10						
		2,782				„ Balance c/d ..	2,516	10						
							2,782							
	To Balance b/d ..	2,516	10											

## Second Way—

Dr.					MACHINERY AND PLANT.					Cr.				
Year.					Year.									
1	To Cash .. ..	3,000			1	By Depreciation 10% £3,000		300						
						„ Balance c/d ..	2,700							
		3,000						3,000						
2	To Balance b/d ..	2,700			2	By Depreciation ..								
	„ Cash .. ..	225				10% £2,925		292	10					
						„ Balance c/d ..	2,632		10					
		2,925						2,925						
3	To Balance b/d ..	2,632	10		3	By Depreciation								
	„ Cash .. ..	127				10% £2,759 10s.		275	19					
						„ Balance c/d ..	2,483		11					
		2,759	10					2,759	10					
	To Balance b/d ..	2,483	11											

## Third Way—

Dr.					MACHINERY AND PLANT.					Cr.				
Year.					Year.									
1	To Cash .. ..	3,000			1	By Depreciation								
						10% £3,000		300						
						„ Balance c/d ..	2,700							
		3,000						3,000						
2	To Balance b/d ..	2,700			2	By Depreciation—								
	„ Cash (June) ..	225				10% £2,700 = £270								
						5% £225 = £11 5s.		281	5					
						„ Balance c/d ..	2,643		15					
		2,925						2,925						
3	To Balance b/d ..	2,643	15		3	By Depreciation—								
	„ Cash (March) ..	127				10% £2,643 15s. =								
						£264 7s. 6d.								
						7½% £127 =								
						£ 9 10 6		273	18					
						„ Balance c/d ..	2,496		17					
		2,770	15					2,770	15					
	To Balance b/d ..	2,496	17											

(3) **Annuity System.**—Under this system the purchase of the asset is regarded as an investment of capital which, if otherwise employed, would be earning a certain rate of interest. Interest at this fixed rate is, therefore, debited to the Asset Account each year, and credited to an Interest Account. The Asset and Interest are then written down by

equal annual instalments until extinguished. This method is used principally for Leases involving considerable outlay spread over a number of years, when it is *not desired to replace them* at the end of the period. It is not so suitable for Plant and Machinery, as fresh calculations would be necessary each time additions were made. This system, although very scientific, results in an increasing charge against Revenue each year, for while the depreciation that is debited remains constant, the interest being credited will diminish each year. If, under a dilapidation clause in the Lease, repairs have to be provided for at the end of the term, this can be done by means of the Sinking Fund principle, explained later on, so that the necessary amount shall be in hand.

The amount to be written off yearly by the Annuity Method, *i.e.*, **Principal + Interest — Instalment**, can be calculated from tables based on the following formula for £1—

$$\frac{1}{1 + \text{Int.}^n - 1} + \text{Int., or } \frac{\text{Interest}}{\text{Compound Interest}^n} + \text{Interest,}$$

where  $n$  = number of years. This gives us for five years, at 5 per cent.,

$$\frac{.05}{.276281} + .05, \text{ or } .180975 + .05, \text{ that is, } .230975;$$

and so on for other rates and years. The following table is sufficient for ordinary book-keeping purposes, and should, together with Table B (see page 348), prove useful to the student.

TABLE A.

*Amount required to write off £1 by the Annuity Method.*

Years.	3 %.	3½ %.	4 %.	4½ %.	5 %.
3	*353530	*356933	*360348	*363773	*367208
4	*269028	*272251	*275490	*278744	*282012
5	*218354	*221481	*224627	*227792	*230975
6	*184597	*187668	*190761	*193878	*197017
7	*160506	*163544	*166609	*169701	*172819
8	*142456	*145476	*148527	*151609	*154721
9	*128433	*131446	*134493	*137574	*140690
10	*117230	*120241	*123291	*126378	*129504

Note.—This Table is easily constructed from the Sinking Fund Table shown later on, by simply adding to those figures the interest on £1 at each of the given rates, *viz.*, .03, .035, .04, .045, and .05.

**Example.**—A Lease is purchased for a term of seven years by payment of £2,000. It is proposed to depreciate the Lease by the Annuity Method, charging 5 per cent. interest. Show the Ledger Account of the asset during this period.

Dr.		LEASE.				Cr.			
1913.						1913.			
Jan. 1	To Cash ..	2,000				Dec. 31	By Depreciation	345	12 9
Dec. 31	„ Interest ..	100				„ „	„ Balance c/d	1,754	7 3
		2,100						2,100	
1914.						1914.			
Jan. 1	To Balance b/d ..	1,754	7	3		Dec. 31	By Depreciation	345	12 9
Dec. 31	„ Interest ..	87	14	4		„ „	„ Balance c/d	1,496	8 10
		1,842	1	7				1,842	1 7
1915.						1915.			
Jan. 1	To Balance b/d ..	1,496	8	10		Dec. 31	By Depreciation	345	12 9
Dec. 31	„ Interest ..	74	16	5		„ „	„ Balance c/d	1,225	12 6
		1,571	5	3				1,571	5 3
1916.						1916.			
Jan. 1	To Balance b/d	1,225	12	6		Dec. 31	By Depreciation	345	12 9
Dec. 31	„ Interest ..	61	5	7		„ „	„ Balance c/d	941	5 4
		1,286	18	1				1,286	18 1
1917.						1917.			
Jan. 1	To Balance b/d ..	941	5	4		Dec. 31	By Depreciation	345	12 9
Dec. 31	„ Interest ..	47	1	3		„ „	„ Balance c/d	642	13 10
		988	6	7				988	6 7
1918.						1918.			
Jan. 1	To Balance b/d ..	642	13	10		Dec. 31	By Depreciation	345	12 9
Dec. 31	„ Interest ..	32	2	8		„ „	„ Balance c/d	329	3 9
		674	16	6				674	16 6
1919.						1919.			
Jan. 1	To Balance b/d ..	329	3	9		Dec. 31	By Depreciation	345	12 11
Dec. 31	„ Interest ..	16	9	2				345	12 11
		345	12	11					

Note.—The Table gives us for £1 at 5 % for 7 years .172819. Multiplying this by £2,000, we get

$$\begin{array}{r}
 2000 \\
 \times .172819 \\
 \hline
 345.638000 \\
 20 \phantom{0000} \\
 \hline
 12.760
 \end{array}
 \qquad
 \begin{array}{r}
 12.760 \\
 \phantom{00} 12 \\
 \hline
 9.120 = £345 : 12 : 9
 \end{array}$$

Owing to fractions of a 1d. being neglected, there will be a slight difference to adjust in the last instalment.

(4) **Depreciation Fund Principle.**—By this method the asset

is allowed to stand on the books at its original cost. A fixed amount, called the Sinking Fund amount, is debited to Profit and Loss each year, and a corresponding amount of Cash invested every year in gilt-edged securities, the amount being such as will, during the life of the asset, accumulate, at compound interest, to the sum required to replace it. At the end of the period the Investments will be realised, the cash being debited in the Cash Book and posted to the credit of the Investment Account in order to close it. Should, however, the investments realise more or less than the required amount—and this is often the case in actual practice—the difference of the Investment Account must be adjusted by a debit or credit to Profit and Loss, as the case may be. The Depreciation Fund Account is transferred to the Asset Account, thus causing both to balance. This shows very clearly that a Depreciation Fund is a charge against profits, and not an appropriation of profits. The Cash will then be in hand with which to purchase the new asset.

The **object of investing cash** each year and allowing it to accumulate is that the Fund becomes available (on realising the Investments) whenever it is required. If a separate sum of money were not thus provided, the cash required at the end of the period would have to be taken from the ordinary bank balance, and this might cause serious inconvenience to the business, and if the amount were large, might cripple it. If this could not be done, fresh capital would have to be provided. The great advantage of the Sinking Fund Investment, therefore, is that it provides the money outside the business, and thus prevents any disturbance of the financial position.

Students often experience considerable difficulty in understanding these Sinking Funds, because they do not grasp the fact that profit in itself is not a tangible item, but only a paper balance. We cannot invest *profit*, though we sometimes speak of putting aside profit and investing it. All that is really done, however, is to invest *cash* on account of profit. Neither can we buy an asset with profit, but only with cash or its equivalent. It does not follow that because we have a Depreciation Fund Account amounting to £2,000, that we have also £2,000 in cash in respect of it. The bank balance at this particular time might be a very small amount. The object of the Sinking Fund Investments is to make sure that the money shall be available whenever it is required.

The Depreciation Fund Account is also designated by other



names, such as **Amortisation Fund Account**, **Sinking Fund Account**, **Redemption Fund Account**. The first term is more appropriate to the writing off of intangible expenditure, *i.e.*, such as is not represented by assets, and the last two terms to the repayment of loans or debentures. **Depreciation Fund Account** is the best term to use in connection with the replacement of a wasting asset.

In the example given, the Investments have been taken at par, and Income Tax has been ignored for the sake of simplicity, but in practice it would be deducted from the Interest received on the Investments. Sometimes instructions are given to invest the Interest instead of remitting it; and, in such cases, a Journal entry would be necessary to debit Investment Account and credit Depreciation Fund Account. In any case, however, the Interest is always invested.

The **Sinking Fund Amount** is calculated from tables based on the following formula—

$$\frac{1}{1 + \text{Int. } n - 1} \text{ or } \frac{\text{Interest}}{\text{Compound Interest } n}$$

Int.

which gives us the amount to be set aside yearly at a given rate of interest to provide £1 at the end of  $n$  or the given number of years.

For five years at 5 per cent. we get

$$\frac{.05}{.276281} \text{ or } .180975;$$

for four years at  $3\frac{1}{2}$  per cent., we get

$$\frac{.035}{.147523} \text{ or } .237251;$$

and so on for other years at other rates.

TABLE B.

*Annual Sinking Fund Instalments to provide £1.*

Years.	3 %.	$3\frac{1}{2}$ %.	4 %.	$4\frac{1}{2}$ %.	5 %.
3	*323530	*321933	*320348	*318773	*317208
4	*239028	*237251	*235490	*233744	*232012
5	*188354	*186481	*184627	*182792	*180975
6	*154597	*152668	*150761	*148878	*147017
7	*130506	*128544	*126609	*124701	*122819
8	*112456	*110476	*108527	*106609	*104721
9	*098433	*096446	*094493	*092574	*090690
10	*087230	*085241	*083291	*081378	*079504

**Example.**—£2,000 is paid for a Lease for a term of seven years. It is desired to write this amount off by means of the Depreciation Fund System, it being necessary to raise a similar amount, at 5 per cent. compound interest, in order to replace the Lease at the end of the period. Show the Ledger Accounts dealing with this matter.

Referring to Table B, we find the amount required to be invested yearly at 5 per cent. in order to produce £1 at the end of seven years is .122819. The amount required to produce £2,000 will, therefore, be

$$\begin{array}{r}
 .122819 \\
 \times 2000 \\
 \hline
 245.638000 \\
 20 \\
 \hline
 12.760 \\
 12 \\
 \hline
 9.12
 \end{array}$$

that is £245 12s. 9d. We can now proceed to write up the accounts as follows—

Dr.				LEASE ACCOUNT.				Cr.			
1913. Jan. 1	To Cash ..	2000		1919. Dec. 31	By Depr. Fund A/c	2000					

Dr.				DEPRECIATION FUND ACCOUNT.				Cr.			
1913. Dec. 31	To Balance c/d ..	245	12 9	1913. Dec. 31	By Profit & Loss	245	12 9				
1914. Dec. 31	To Balance c/d ..	503	11 2	1914. Jan. 1	By Balance b/d .	245	12 9				
				Dec. 31	" Cash (Int.) ..	12	5 8				
				" "	" Profit & Loss	245	12 9				
		503	11 2			503	11 2				
1915. Dec. 31	To Balance c/d ..	774	7 6	1915. Jan. 1	By Balance b/d .	503	11 2				
				Dec. 31	" Cash (Int.) ..	25	3 7				
				" "	" Profit & Loss	245	12 9				
		774	7 6			774	7 6				
1916. Dec. 31	To Balance c/d ..	1,058	14 8	1916. Jan. 1	By Balance b/d .	774	7 6				
				Dec. 31	" Cash (Int.) ..	38	14 5				
				" "	" Profit & Loss	245	12 9				
		1,058	14 8			1,058	14 8				

Dr.

DEPRECIATION FUND ACCOUNT—*contd.*

Cr.

1917. Dec. 31	To Balance c/d ..	1,357	6	2	1917. Jan. 1 Dec. 31	By Balance b/d ..	1,058	14	8
						" Cash (Int.) ..	52	18	9
						" Profit & Loss.	245	12	9
		1,357	6	2			1,357	6	2
1918. Dec. 31	To Balance c/d ..	1,670	16	3	1918. Jan. 1 Dec. 31	By Balance b/d ..	1,357	6	2
						" Cash (Int.) ..	67	17	4
						" Profit & Loss	245	12	9
		1,670	16	3			1,670	16	3
1919. Dec. 31	To Lease A/c ..	2,000			1919. Jan. 1 Dec. 31	By Balance b/d ..	1,670	16	3
						" Cash (Int.) ..	83	10	10
						" Profit & Loss	245	12	11
		2,000					2,000		

Dr.

## DEPRECIATION FUND INVESTMENT ACCOUNT.

Cr.

1913. Dec. 31	To Cash ..	245	12	9	1913. Dec. 31	By Balance c/d ..	245	12	9
1914. Jan. 1 Dec. 31	To Balance b/d ..	245	12	9	1914. Dec. 31	By Balance c/d ..	503	11	2
	" Cash (Int. & Instalment) ..	257	18	5			503	11	2
		503	11	2					
1915. Jan. 1 Dec. 31	To Balance b/d ..	503	11	2	1915. Dec. 31	By Balance c/d ..	774	7	6
	" Cash ..	270	16	4			774	7	6
		774	7	6					
1916. Jan. 1 Dec. 31	To Balance b/d ..	774	7	6	1916. Dec. 31	By Balance c/d ..	1,058	14	8
	" Cash ..	284	7	2			1,058	14	8
		1,058	14	8					
1917. Jan. 1 Dec. 31	To Balance b/d ..	1,058	14	8	1917. Dec. 31	By Balance c/d ..	1,357	6	2
	" Cash ..	298	11	6			1,357	6	2
		1,357	6	2					
1918. Jan. 1 Dec. 31	To Balance b/d ..	1,357	6	2	1918. Dec. 31	By Balance c/d ..	1,670	16	3
	" Cash ..	313	10	1			1,670	16	3
		1,670	16	3					
1919. Jan. 1 Dec. 31	To Balance b/d ..	1,670	16	3	1919. Dec. 31	By Cash ..	2,000		
	" Cash ..	329	3	9			2,000		
		2,000							

**Note 1.**—The Cash instalment will not be invested at the end of the last year, but will be paid over to the Investment Account money, so that the full amount shall be in hand to purchase the new Lease.

**Note 2.**—The Lease Account and the Depreciation Fund Investment Account will appear as assets on the Balance Sheet until the end of the period. The Depreciation Fund Account will show on the liabilities' side of the Balance Sheet until the end of the period; it may, however, be shown on the assets' side as a deduction from the Lease.

**(5) Insurance Policy System.**—Under this method an insurance policy is taken out for the amount required to replace the asset at the end of its period of life. The procedure is not unlike that under the Depreciation Fund System, except that the Cash, instead of being used to purchase gilt-edged investments, is paid away in premiums to the Insurance Company. Although the Interest thus obtained is lower, yet there is not the risk of loss on realisation, as in the case of outside investments subject to market fluctuations.

The Lease Account remains open in the books until the end of the period, figuring on the Balance Sheet each year as an asset. The records in the financial books will differ according as a Policy Account is kept or not. When a Policy Account is not opened, the entries will be—

- (a) For the purchase of the Lease—  
By *Lease*, on the *Cr.* side of Cash Book.
- (b) For the annual premiums paid to Insurance Co.—  
By *Lease Insurance*, on *Cr.* side of Cash Book.
- (c) For charging the Insurance, which takes the place of the annual depreciation, to Revenue—

(JOURNAL.)

Profit and Loss	<i>Dr.</i>
To Lease Insurance	<i>Cr.</i>

When the policy matures, the cash received will be debited in the Cash Book and posted to the credit of the Lease Account, thus closing it, and leaving the money in hand ready to purchase the new Lease (or other Asset, as the case may be).

When a Policy Account is opened it should be maintained at surrender value, which is a certain percentage of the premiums paid, plus about 2 per cent. compound interest. The surrender value of the policy will, therefore, be increasing year by year. The entries in the books will be—

- (a) For the purchase of the Lease—  
By *Lease*, on *Cr.* side of Cash Book.
- (b) For the annual premiums paid to Insurance Co.—  
By *Lease Policy Account*, on *Cr.* side of Cash Book.

- (c) For charging the Insurance, which takes the place of the annual depreciation, against Revenue—

(JOURNAL.)

Profit and Loss Account	<i>Dr.</i>
To Lease Redemption Fund A/c	<i>Cr.</i>

- (d) For adjustment necessary to maintain Policy Account at the surrender value of the Policy; also, at end of last year, to raise the Policy Account to its full value—

(JOURNAL.)

Lease Policy A/c	<i>Dr.</i>
To Lease Redemption Fund A/c	<i>Cr.</i>

When the policy matures, the cash received will be debited in the Cash Book and posted to the credit of the Lease Policy Account, thus closing it, the cash remaining in hand ready to purchase the new Lease. The Lease Redemption Fund Account will be closed by transfer to the (old) Lease Account, and will thus extinguish it. Until the end of the period, the Lease Account and Lease Policy Account will figure among the assets on the Balance Sheet, while the Lease Redemption (or Depreciation) Fund Account will be shown on the liabilities side of the Balance Sheet.

(6) **Re-valuation Process.**—This method involves the process of stock-taking and valuing. It is adopted for assets which cannot be dealt with under the other methods, such as Horses, Casks, Bottles, Packages, Loose Tools, Patterns, Models, Moulds, Trade Marks, Copyrights, Investments, etc. With many of these assets special considerations have to be taken into account. The difference arising from the re-valuation is debited to Profit and Loss Account and credited to the Asset Account. If, however, the difference is a profit, instead of a loss, such appreciation is credited to Profit and Loss Account and debited to the Asset Account. Such instances, however, are rare. In certain cases, as with Investments, a loss or gain on re-valuation is not carried to the Asset Account at all, but to a Reserve Account, as the difference may not be permanent but only temporary. The disadvantage of writing off depreciation by this re-valuation process is, that while the asset is rendering virtually the same services to the business year by year, the business gets charged with very unequal sums each year in respect of those services.

**Depreciation of Loose Tools, etc.**—In engineering firms where they make their own tools, the stocks of such at commencement and end of the financial period are entered in the Trading Account. The cost of making the tools is included

in the Materials and Wages Accounts; and as these two accounts are charged to Trading Account, any difference between the two stocks of tools is, therefore, a proper charge to the same account.

**Rates of Depreciation Generally Adopted.**—The following are the rates of depreciation generally adopted, though it must not be forgotten that special circumstances may make them higher or lower—

*Blast Furnaces, Gas Retorts, and Chemical Plant* (subject to rapid depreciation and constant repair with little or no break-up value) the original cost divided by the number of years' life.

*Freehold Land and Buildings*,  $2\frac{1}{2}\%$  -  $5\%$ .

*Engines (movable)*  $10\%$ , (*fixed*)  $7\frac{1}{2}\%$ .

*Boilers (high pressure)*  $15\%$ , (*low pressure*)  $10\%$ .

*Driving Gear*,  $5\%$  -  $7\frac{1}{2}\%$ .

*Plant and Machinery*,  $5\%$  -  $10\%$ .

*Carts and Vans*,  $10\%$  -  $15\%$ .

*Furniture, Fixtures, and Fittings*,  $5\%$  -  $7\frac{1}{2}\%$ .

*Rolling Stock*—

*Locomotives*,  $10\%$ .

*Wagons* (life about 15 years),  $7\frac{1}{2}\%$ .

*Ships* (life about 20 years),  $5\%$ .

*Patents* (life 14 years),  $\frac{1}{14}$ th of cost each year. There is sometimes, as with trade-marks, a residual value in the form of a goodwill, caused by the trade these things have created.

*Casks* (in breweries, distilleries, oil refineries),  $10\%$  -  $20\%$  or re-valued yearly.

The above rates are for depreciation on diminishing balances, normal conditions and hours of working being assumed.

**DESIGNS AND MODELS.**—These are treated as an asset, a separate account being opened for them. They are depreciated annually, either by means of a fixed rate on diminishing values, or by re-valuation.

**DEVASTAVIT.**—Wasting of assets by an executor.

**DEWISEE.**—A person to whom land is bequeathed.

**DIFFERENCE IN BOOKS.**—When after checking and re-checking the books, the two sides of the Trial Balance cannot be made to agree, the amount of the discrepancy is placed to the debit, or credit, of an account entitled "Difference in Books." It remains there until the error is brought to light. Should this not happen, the account would be closed eventually by transfer to Profit and Loss.

**DIFFERENCE IN EXCHANGE ACCOUNT.**—(See BRANCH ACCOUNTS.)

**DIFFERENTIATION OF INCOME.**—(See INCOME TAX.)

**DIMINISHING BALANCE.**—(See DEPRECIATION.)



**DIMINUTION OF INCOME.**—(See **INCOME TAX**.)

**DIRECT CHARGES OR EXPENSES.**—(See **COST ACCOUNTS**.)

**DIRECTORS' FEES.**—These are sums of money payable to the directors for attending meetings of the Board to transact the business of the Company. The fees are sometimes fixed by the Articles, in which case they are charged to Profit and Loss. In other cases they are voted by the shareholders by means of a percentage on the profits, especially as regards the managing director. The fees, or remuneration, are then shown in the Appropriation Account. Income Tax is sometimes deducted by arrangement, but, strictly speaking, the directors are expected to pay their own tax under Schedule E.

**DIRECTORS, REGISTER OF.**—(See **COMPANY**.)

**DIRECTORS' REPORT.**—(See **COMPANY**.)

**DISCHARGE OF BILL.**—(See **BILL OF EXCHANGE**.)

**DISCHARGE, ORDER OF.**—An order of the Bankruptcy Court releasing a debtor from all debts and liabilities provable in the bankruptcy. The debtor may apply for this after his public examination. The Court, however, has power to suspend his discharge for a time, in which case he becomes an undischarged bankrupt, and must not, under penalty of a year's imprisonment, obtain credit to the extent of £20 without disclosing the fact that he is an undischarged bankrupt.

**DISCOUNT.**—An allowance made off the price of goods or off the amount of an account.

**Cash Discount.**—An allowance made when receiving or paying money. It is entered in the Discount column of the Cash Book. The totals of the discount columns are posted monthly to a Discount Account, and the balance of this account is closed eventually to Profit and Loss. Not unfrequently, however, the totals of the discount columns are posted to separate accounts called "**Discounts Allowed**" and "**Discounts Received**," in order to show the exact gain and loss by discount. The former account is transferred ultimately to the debit side of Profit and Loss, and the latter account to the credit side.

Students should note that  $5\% = 1s.$  in the £ or  $\frac{1}{20}$ th;  $3\frac{3}{4}\% = 9d.$  in the £ or  $\frac{3}{80}$ ths;  $2\frac{1}{2}\% = 6d.$  in the £ or  $\frac{1}{40}$ th;  $1\frac{1}{4}\% = 3d.$  in the £ or  $\frac{1}{80}$ th. Many students seem quite unable to calculate discount on fractions of a £. The shillings and pence must, first of all, be reduced to pence,

and then divided by the denominator of the fraction which the required percentage represents.

**Example 1.**—Find 5 % discount on 16s. 11d.

$$16s. 11d. = 203d. \quad 5 \% \text{ represents } \frac{5}{100} \text{ths} = \frac{1}{20} \text{th.}$$

$$203d. \div 20 = 10d.$$

**Example 2.**—Find  $2\frac{1}{2}$  % discount on 8s. 9d.

$$8s. 9d. = 105d. \quad 105 \div 40 = 2\frac{5}{8}d. = 3d. \text{ approximately.}$$

**Example 3.**—Find  $1\frac{1}{4}$  % discount on 14s. 10d.

$$14s. 10d. = 178d. \quad 178d. \div 80 = 2\frac{18}{80}d. = 2d.$$

**Note.**—If the fraction, after division, is equal to one-half or over take the next penny, as in Example 2; if under one-half, ignore it, as in Example 3.

$3\frac{3}{4}$  % is a rate of discount which greatly perplexes the vast majority of students. It can often be found most quickly by calculating  $2\frac{1}{2}$  %, then halving the result, and adding the two amounts together.

**Example.**—Find  $3\frac{3}{4}$  % discount on £26 13s. 2d.

$$2\frac{1}{2} \% = 6d. \text{ in the } \pounds.$$

$$26 \text{ sixpences} = \text{half the same number of shillings} = 13s.$$

$$13s. 2d. = 158d. \quad 158d. \div 40 = 4d. \text{ nearly.}$$

$$\text{Now, } 2\frac{1}{2} \% = 13s. 4d.$$

$$\text{and } 1\frac{1}{4} \% = \frac{1}{2} = 6s. 8d.$$

$$\text{Therefore } 3\frac{3}{4} \% = \underline{\underline{\pounds 1 \ 0 \ 0}}$$

$7\frac{1}{2}$  % can be found in a similar manner, by calculating 5 %, halving it, and adding the results together.

**Trade Discount.**—An allowance made off the purchase or selling price of goods. It should be deducted in the Purchases Book, or Sales Book as the case may be, and only the net purchase or sale entered in the Ledger.

Despite their having learned arithmetic, most students show lamentable ignorance in calculating discounts. They should particularly note that—

$$10 \% = \frac{1}{10} \text{th; } 20 \% = \frac{1}{5} \text{th; } 25 \% = \frac{1}{4} \text{th; } 33\frac{1}{3} \% = \frac{1}{3} \text{rd; } 50 \% = \frac{1}{2};$$

$$66\frac{2}{3} \% = \frac{2}{3} \text{rds; } 75 \% = \frac{3}{4} \text{ths}$$

of the amount from which discount is to be deducted. An example of the treatment of Trade Discount will be found under SALES BOOK.

**Banker's (or Commercial) Discount.**—Really simple interest on the face value of a bill of exchange, from the date of its discounting to the due date, at a fixed rate per cent. per annum. For this reason, when a bill is discounted, some accountants consider it incorrect to place the discount charged on it in the Discount column of the Cash Book, and

prefer to post it to the Bank Charges Account, or a separate Banker's Discount Account.

**True (or Theoretical) Discount.**—The difference between the value of a bill at maturity, *i.e.*, its face value, and its present value; it is really interest on the present value. Take, for example, a bill of exchange for £324 drawn on 1st Feb. at three months, and discounted on the 4th Feb., at 5 per cent.—

$$\begin{array}{rcl}
 & & \text{£ s. d.} \\
 \text{Banker's Discount} & = \frac{5}{400} \text{ of } £324 & = 4 \quad 1 \quad 0 \\
 \text{True} & \text{,,} & = \frac{5}{405} \text{ of } £324 = 4 \quad 0 \quad 0 \\
 \text{Difference} & = \text{Interest on True} & \\
 \text{Discount for 3 mos. at 5\% p.a.} & = & \underline{\underline{£0 \quad 1 \quad 0}} \\
 \text{Present Worth of bill} & = \frac{400}{405} \text{ of } £324 & = £320
 \end{array}$$

$$\text{True Discount} = (\text{as per definition}) £324 - £320 = £4.$$

This is really the Interest on the present value (£320) for three months at 5 per cent. per annum.

**Discount on Purchases.**—Same as DISCOUNTS RECEIVED.

**Discount on Sales.**—Same as DISCOUNTS ALLOWED. Some accountants place Discounts on Sales in Trading Account, and Discounts on Purchases in Profit and Loss, as the latter are affected by the financial position of the business. The majority, however, charge both to Profit and Loss.

**Discount on an Asset or Stores.**—When an Asset is purchased for own use such as Furniture, or Stores for own consumption such as Coal and Oil, any discount allowed in connection with the payment for same should *not* be entered in the Discount column, but credited by means of Journal entry to the Asset or Stores Account. If the discount is known at the time of purchase, then the Asset or Stores can be booked up net; and when the account is paid, the discount can be ignored. To show the discount as a gain in the Discount Account means that we should have to keep the asset or stores at a figure higher than their cash price. We should thus be making a profit out of ourselves or at our own expense. We trade with our *goods*, the things for re-sale, not with our assets or stores. Another way of looking at it

is, that if we buy these things at what is virtually the cash price, we are not justified in booking them up at any higher figure.

**Discounts on Cash Sales and Purchases.**—These are generally ignored, though some accountants enter them. The result of entering them will only be to affect the gross profit, the net profit remaining the same.

**Discount on Sale of Other People's Goods.**—It often happens, especially with Consignments Inwards, that cash discounts are allowed when such sales are paid for. These discounts must *not* be entered in the Discount column of the Cash Book—a thing frequently done by students in examination work—else we should be bearing a loss which is no concern of ours at all. A Journal entry must be made for the discount, crediting the person to whom the goods were sold, and debiting the person to whom the goods originally belonged.

**Special Discount on a Purchase.**—The whole of a bankrupt's stock is sometimes purchased for cash at a huge discount off cost price, at times as large as 50 per cent. Such discounts are generally ignored, and only the net amount of the purchase is booked up.

**Discount on an Account Paid by Instalments.**—Customers frequently pay round sums on account, and then with the last instalment claim the discount to which they are entitled. The discount is, of course, on the *whole* of the account. Yet, in examination work, students not infrequently allow the discount merely off the amount of the last payment.

**Discount Implied but not Stated.**—This is often the case in theoretical and examination work. The student will meet with an item like this—

*Received from F. Brown to settle account .. .. . £20*

On looking up the account, we find it to be £21 1s. 1d., and we, therefore, put £1 1s. 1d. in the Discount column.

**Discount Deducted, but Subsequently Disallowed.**—It sometimes happens when paying an account that a larger cash discount is deducted than the creditor will allow. In such cases, a Journal entry will be necessary to adjust the accounts.

**Example 1.**—Jan. 10th. Paid A. Brown's Account (£156 13s. 4d.) by cheque, after deducting 5% discount. Jan. 13th. Brown writes that he can only allow  $2\frac{1}{2}\%$ , and requests cheque for balance of account, which is duly sent him. Show these transactions in the books.

## CASH BOOK.

Cr.

Date.	Payments.	Discount.	Office.	Bank.
Jan. 10	By A. Brown .. ..	7 16 8		148 16 8
13	" " .. ..			3 18 4

## JOURNAL.

Dr.

Cr.

Jan. 13	Discount .. ..	3 18 4		3 18 4
	To A. Brown .. ..			
	For discount deducted in error, 5 % (£7 16s. 8d.) taken off instead of 2½ %.			

## LEDGER.

Dr.

A. BROWN.

Cr.

Jan. 10	To Cash .. ..	148 16 8	Jan. 1	By Balance ..	156 13 4
"	" Discount ..	7 16 8			
		156 13 4			156 13 4
Jan. 13	To Cash .. ..	3 18 4	Jan. 13	By Discount (deducted in error)	3 18 4

It may also happen that one of our debtors will deduct a bigger discount than what he is entitled to. In such cases, a Journal entry will not be necessary, as we shall enter in the Discount column only the proper amount allowable.

**Example 2.**—Jan. 10th. A. Brown paid his account (£156 13s. 4d.) by cheque, after deducting 5 % discount. Wrote him that we could only allow 2½ %, and that we would carry the balance forward. Show this transaction in the books.

The 5 % discount must be worked out and deducted from the amount of the account, in order to arrive at the value of the cheque; but only 2½ % discount will be entered in the Cash Book.

Dr.

## CASH BOOK.

Date.	Receipts.	Discount.	Office.	Bank.
Jan. 10	To A. Brown .. ..	3 18 4		148 16 8



## LEDGER.

A. BROWN.

Dr.							Cr.		
Jan. 1	To Balance.. ..	156	13	4	Jan. 10	By Cash .. ..	148	16	8
					"	" Discount .. ..	3	18	4
					31	" Balance c/d	3	18	4
		156	13	4			156	13	4
Feb. 1	To Balance.. b/d	3	18	4					

**Discount in Connection with Bills.**—When a Bill of Exchange is received or issued, any discount in connection with it is usually journalised, as shown under **BILLS**. Some accountants, however, place these discounts in the Discount column of the Cash Book. Undoubtedly the best way is to have a Discount column in the Bill Books if such discounts are numerous. (See **BILLS RECEIVABLE AND PAYABLE BOOKS**.)

**Discount Problems in Examination Work.**—These greatly perturb students at times. With a little thought, however, they may be easily solved.

**Example 1.**—Paid A. Smith cheque value £148 16s. 8d. in settlement of account, *less* 5 % discount.

The discount has to be found. It is not 5 % on £148 16s. 8d., but on the amount of the account, which is not stated. We must reason this way—

$$5\% = 1s. \text{ in the } £ = 12d. \text{ in } 240d. \quad 240d. - 12d. = 228d.$$

Now,  $\frac{12}{240}$  of the gross amount payable is equal to  $\frac{12}{228}$  of the net amount actually paid. Thus—

$$\frac{12}{228} = \frac{1}{19} \text{th.} \quad \frac{12}{240} \text{ of } 240d. = \frac{12}{228} \text{ of } 228d. \\ \frac{1}{19} \text{ of } £148 \text{ 16s. 8d} = £7 \text{ 16s. 8d.} = \text{amount of discount.}$$

**Example 2.**—Received of R. Brown, cheque value £152 15s., in settlement of account, *less*  $2\frac{1}{2}\%$  discount.

The discount is not  $2\frac{1}{2}\%$  on £152 15s., but on the amount of the account, which is not stated. We must reason as before—

$$2\frac{1}{2}\% = 6d. \text{ in the } £ = 6d. \text{ in } 240d. \quad 240d. - 6d. = 234d.$$

$\frac{6}{234}$  of the gross amount payable is, therefore, equal to  $\frac{6}{234}$  of the net amount actually paid.

$$\frac{6}{234} = \frac{1}{39} \text{th.} \quad \frac{1}{39} \text{ of } £152 \text{ 15s.} = £3 \text{ 18s. 4d.} = \text{amount of discount.}$$

**DISCOUNT RESERVES.**—Reserves for Discount are made both on Debtors and Creditors. The object of making such Reserves is that the Debtors and Creditors shall appear on the Balance Sheet at their proper value; otherwise both our assets and liabilities would be overstated. For this reason,



also, such Reserves are generally shown on the Balance Sheet as a deduction from the Debtors and Creditors respectively. Some accountants, however, think these discounts should not be taken into account at all; that they should only appear in the same period as the cash receipt or payment to which they belong. The Reserve is made by means of a Journal entry to the Discount Account, or direct to Profit and Loss. The objection to the Discount Account method is similar to the objection in the case of Bad Debts, namely, that these discounts are not *actual* discounts, but only reserves. The student must remember that the Reserve for Discount on Debtors is made, not on the full amount of the Debtors, but on this amount less the new Bad Debt Reserve, that is, on the *good* Debtors. A debt cannot be both good and bad. If we reserve for it being bad, we shall not require discount on it. On the other hand, should the debt turn out good, then the amount we have reserved for it as a bad debt will be many times greater than the discount allowed on it. To make *ample* provision for losses is all that is required; there is no object in making *excessive* provision. Any new Reserves for Discount that are made must, of course, be adjusted with the old Reserves (if any), as we do not require double reserves. The Discount Reserves are usually calculated by means of a percentage on the outstanding Debtors and Creditors.

**Example 1.**—The Sundry Debtors at 31st Dec., 19.., were £5,000. A Bad Debt Reserve of 5 per cent. was made, and also a Discount Reserve of 5 per cent. The discounts allowed amounted to £197 15s. 6d., and there was an old Discount Reserve of £180. Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries relating to discounts.

JOURNAL.		Dr.		Cr.	
19..					
Dec. 31	Profit and Loss .. .. .	57	10		
"	To Reserve for Discount on Drs.			57	10
	5 % of £4,750 = £237/10/0 less £180				

LEDGER.									
Dr.					DISCOUNTS ALLOWED.				
					Cr.				
19..					19..				
Dec. 31	To Sundries ..	197	15	6	Dec. 31	By Profit & Loss	197	15	6

<i>Dr.</i>		RESERVE FOR DISCOUNT ON DEBTORS.						<i>Cr.</i>	
19.. Dec. 31	To Balance c/d ..	237	10			19.. Jan. 1 Dec. 31	By Balance .. " Profit & Loss	180 57	10
		237	10					237	10
						19.. Jan. 1	By Balance b/d ..	237	10

<i>Dr.</i>		PROFIT AND LOSS ACCOUNT.							
	To Discounts Allowed .. ..							197	15 6
	" Reserve for Discount on Drs...	237	10					57	10
	less Old Reserve .. ..	180							

## BALANCE SHEET.

<i>Assets.</i>									
	Sundry Debtors .. ..	5,000							
	less Bad Debt Reserve .. ..	250							
		4,750							
	less Discount Reserve .. ..	237	10					4,512	10

**Example 2.**—The Sundry Creditors on 31st Dec., 19.., stood at £3,218 7s. 11d. The discounts received amounted to £77 5s. 2d. There was an old Discount Reserve of £60 5s. 6d., and it was resolved to make a new Reserve of  $2\frac{1}{2}$  per cent. on the outstanding Creditors. Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries relating to discounts.

## JOURNAL.

		<i>Dr.</i>			<i>Cr.</i>		
19.. Dec. 31	Reserve for Discount on Crs. ..	20	3	8			
	To Profit and Loss .. ..				20	3	8
	$2\frac{1}{2}$ % of £3,218 / 7 / 11 = £80 9 2, less £60 / 5 / 6.						

## LEDGER.

<i>Dr.</i>		DISCOUNTS RECEIVED.						<i>Cr.</i>	
19.. Dec. 31	To Profit & Loss ..	77	5	2	19.. Dec. 31	By Sundries ..	77	5	2

<i>Dr.</i>		RESERVE FOR DISCOUNT ON CREDITORS.						<i>Cr.</i>		
19..						19..				
Jan. 1	To Balance ..	60	5	6		Jan. 1	By Balance c/d ..	80	9	2
Dec. 31	„ Profit & Loss ..	20	3	8		Dec. 31				
		80	9	2				80	9	2
19..										
Jan. 1	To Balance b/d ..	80	9	2						

		PROFIT AND LOSS ACCOUNT.						<i>Cr.</i>		
	By Discounts Received .. ..							77	5	2
	„ Reserve for Discount on Crs. ..	80	9	2						
	less Old Reserve .. ..	60	5	6				20	3	8

		BALANCE SHEET.								
	<i>Liabilities.</i>									
	Sundry Creditors .. ..	3,218	7	11						
	less Discount Reserve .. ..	80	9	2				3,137	18	9

Suppose we had charged the Reserves in both cases to the Discount Account instead of direct to Profit and Loss Account, then the former account would appear thus—

<i>Dr.</i>		DISCOUNT.						<i>Cr.</i>		
19..						19..				
Jan. 1	To Balance .. ..	60	5	6		Jan. 1	By Balance .. ..	180		
Dec. 31	„ Sundries .. ..	197	15	6		Dec. 31	„ Sundries .. ..	77	5	2
	„ Reserve on Drs. c/d ..	237	10				„ Reserve on Crs. c/d ..	80	9	2
							„ Profit and Loss ..	157	16	8
		495	11					495	11	
19..						19..				
Jan. 1	To Balance b/d .. ..	80	9	2		Jan. 1	By Balance b/d ..	237	10	

DISHONOURD BILLS.—(See BILL OF EXCHANGE.)

DISHONOURD CHEQUES.—(See CHEQUE.)

DISSOLUTION OF PARTNERSHIP.—(See PARTNERSHIP ACCOUNTS.)

DISTRIBUTION OF ASSETS.—(See PARTNERSHIP

ACCOUNTS, MARSHALLING OF ASSETS, and STATUTES OF DISTRIBUTION.)

**DISTRIBUTION EXPENSES.**—(See COST ACCOUNTS.)

**DIVIDEND.**—(See BAD DEBTS.)

**First Dividend of 5s. in the £.**—This indicates that only part of the Debtor's estate has been realised, and that the creditors may expect a further instalment.

**Final Dividend of 5s. in the £.**—This denotes that the whole of the Debtor's assets have been realised, and that the creditors will receive no further payment.

**DIVIDEND.**—A share of the profits of a Joint Stock Company. Interest on Consols or other public Stock.

**Cum Dividend (cum div.).**—A Stock Exchange term indicating that the price quoted includes the forthcoming dividend.

**Ex Dividend (ex div.).**—This denotes that the quoted price is exclusive of the next dividend.

**Table A** contains the following provisions with respect to Dividends—

95. The Company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the directors.

96. The directors may from time to time pay to the members such interim dividends as appear to the directors to be justified by the profits of the company.

97. No dividend shall be paid otherwise than out of profits.

98. Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid on the shares ; but if and so long as nothing is paid up on any of the shares in the company dividends may be declared and paid according to the amounts of the shares. No amount paid on a share in advance of calls shall, while carrying interest, be treated for the purposes of this article as paid on the share.

99. The directors may, before recommending any dividend, set aside out of the profits of the company such sums as they think proper as a reserve or reserves which shall, at the discretion of the directors, be applicable for meeting contingencies, or for equalising dividends, or for any other purpose to which the profits of the company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the company or be invested in such investments (other than shares of the company) as the directors may from time to time think fit.

100. If several persons are registered as joint holders of any share any one of them may give effectual receipts for any dividend payable on the share.

101. Notice of any dividend that may have been declared shall be given in manner hereinafter mentioned to the persons entitled to share therein.

102. No dividend shall bear interest against the company.

**Interim Dividend.**—A dividend declared before the end of the financial period, either out of profits that are accruing, or out of the balance of profits brought forward from the previous period.

**DIVIDEND ACCOUNT.**—When a dividend is declared on any kind of shares, it is charged to a Dividend Account, which is closed by transfer to the Appropriation (not Profit and Loss) Account. A Journal entry is made thus—

Preference Share Dividend	<i>Dr.</i> £1,080	
To Preference Shareholders	<i>Cr.</i>	£810
„ Income Tax Account	<i>Cr.</i>	£270

Sometimes the entry is made Direct to the Appropriation Account, thus—

Appropriation Account	<i>Dr.</i> £810	
To Preference Share Dividend	<i>Cr.</i>	£810

and

Preference Share Dividend	<i>Dr.</i> £270	
To Income Tax Account	<i>Cr.</i>	£270

The Company is entitled to deduct income tax at the current rate before paying the dividend. A cheque is drawn for the net amount of dividend payable, and posted to the debit of the Shareholders' or Dividend Account, thus closing it. The cheque is paid in to a Preference Dividend Account at the Company's Bank; and dividend warrants drawn on this Account are sent to the individual shareholders for their respective portions. If all the cheques are not cashed, there will be a balance in this Account, and this will be shown, at balancing time, on the liabilities side of the Company's Balance Sheet as "**Unclaimed (or Unpaid) Dividends,**" and on the assets side as "**Cash at Bank on Dividend Account,**" or the Cash may be merged with the other Cash at Bank. When the number of shareholders is not very large, a separate Bank Account for the Dividend may not be opened, dividend warrants being drawn on the ordinary Bank Account. The remarks under Debenture Interest *re* examination work apply equally to Preference Dividend when this figures in the Trial Balance *less tax*.

**DIVIDEND EQUALISATION FUND OR RESERVE.**—When the profits of any particular year happen to be much larger than usual, a certain amount is transferred to a

**Dividend Reserve or Dividend Equalisation Fund.** Then when the Company has a bad year, this Reserve is drawn upon in order to maintain dividends, that is, to enable the Company to declare a normal dividend. The surpluses of prosperous years are thus used to level up the profits of lean years. It is much better for a Company to pay a fair dividend each year, than to pay a very large dividend one year, and the next year a very small one or, perhaps, none.

**DIVIDEND FREE OF INCOME TAX.**—This statement simply means that the shareholder will receive the *full* dividend instead of the *net* amount, the Company not deducting the tax. This is often the case with Ordinary Shares. Inasmuch, however, as a Company pays tax on the whole of its profits, such dividend is actually taxed.

**DIVIDEND LIST OR BOOK.**—A book or list giving particulars of the individual shareholders, names, addresses, amount of shares, etc. The following is a specimen—

DIVIDEND LIST OR BOOK.

Fol.	Name.	Address.	Amount of Shares.	Amount of Divi- dend.	Amount of Tax.	Net Divi- dend.	Remarks.

**DIVIDEND NOTICE.**—The letter attached to the dividend warrant giving particulars of the dividend and of the income tax deducted from it.

**DIVIDENDS RECEIVED LESS TAX.**—These are income from Investments held, and are, therefore, credited to Profit and Loss like other profits.

**DIVIDEND WARRANT.**—A cheque on the Company's bankers for the shareholder's portion of the dividend.

**DOCK CHARGES.**—These are the dues or tolls levied on ships and their cargoes when entering or leaving docks. These charges are made to cover interest on the capital outlay and the cost of keeping the docks in repair. In connection with goods bought, they are charged to the Goods or Purchases Account, and in connection with sales, to the



Carriage Outwards Account. When very numerous, a separate Dock Charges Account is opened.

**DOCUMENTARY BILL.**—A foreign bill having certain documents attached; i.e., the invoice, bill of lading, insurance policy, and sometimes a letter of hypothecation. Foreign bills, especially in connection with shipping orders and consignments, are often discounted or sold even before acceptance. A banker doing this is taking a considerable risk; and he, therefore, wishes to protect himself by securing possession of the bill of lading without which no one can unship the goods, and the insurance policy without which no one can claim for the value of the goods if lost at sea. He forwards the bill, together with the documents attached, to his branch or agent at the place of destination of the goods. When the goods arrive they are unshipped and warehoused by the banker's agent, who calls upon the customer for acceptance or payment of the bill, in return for which he surrenders the documents. If the drawee is a trader of good financial standing, the banker's agent may release the goods immediately on the bill being accepted; and, in such cases, the bill will contain the clause "*documents to be surrendered against acceptance.*" In other cases he will require not only acceptance, but payment of the bill at maturity, before parting with possession of the goods. The customer may, if he so wishes, pay the bill by instalments, and thus obtain the goods by instalments. If, however, he desires to obtain possession of the whole of the goods, he may retire the bill under a **rebate** for the unexpired term of its currency. The letter of hypothecation pledges the goods as security for the payment of the bill; and should the bill be dishonoured by non-acceptance or non-payment, the banker's agent will sell the goods, and the banker would then have recourse to the drawer to make good any deficiency. Bills are often drawn in the currency of the country to which they are being sent, but when drawn in sterling, they are then payable at some specified rate of exchange. In some cases, the amount to be paid at maturity will be the amount of the bill, plus interest on it from the date of the bill to the time it will take for the remittance to reach London. Documentary bills are sometimes sold to brokers who, in their turn, sell them to purchasers who have debts to settle in the places where the bills are payable, the documents attached affording security to the buyer.

## Example 1—

No. 743.

LONDON,

Exchange for £600

12th Feb., 19...

Stamp  
6/0

Ninety days after sight of this First of Exchange (Second and Third of the same date and tenor unpaid) pay to the order of Messrs. A. Retrop & Co. the sum of Six hundred pounds, value received against C&C 974/46=10 Cases of Goods per s.s. *Violet*, and place C&C to account as advised. Shipping documents attached to be surrendered on acceptance.

A. RETROP &amp; Co.

To Messrs. Chang & Co.,  
Hong Kong.

## Example 2—

No. 744.

LONDON,

Exchange for £500.

12th Feb., 19...

Stamp  
5/0

Sixty days after sight pay this First of Exchange (Second and Third of same date and tenor unpaid) to our order the sum of Five hundred pounds sterling, payable at the National Bank of India's drawing rate for demand drafts on London, with interest at six per cent. per annum added thereto from date hereof to approximate due date of arrival of the remittance in London, value received against R&C 972/45 = 20 bales of Cotton Goods per s.s. *Early Bird*. R&C Shipping documents attached to be surrendered on payment.

To Messrs. Rajah & Co.,  
Bombay.

A. RETROP &amp; Co.

The above bill would be indorsed—

*Pay the National Bank of India, Ltd., or order.*

A. Retrop &amp; Co.

DOMICILE.—(See BILL OF EXCHANGE.)

**DONATIONES MORTIS CAUSA.**—This is a Latin phrase, signifying “gifts made in anticipation of death.” There is an implied condition that the gift is only to be absolute in the event of the death of the donor from his then malady

They differ from Legacies, in that they take effect from the time of delivery, and do not require the executor's assent. They differ from gifts *inter vivos* in that they are revocable during the lifetime of the donor, are liable for estate and legacy duty, and also for payment of the donor's debts in the case of a deficiency of assets.

**DORMANT PARTNER.**—(See PARTNERSHIP ACCOUNTS.)

**DOUBLE ACCOUNT SYSTEM.**—The Double Account System is a system of accounts prescribed for Companies incorporated under special Acts of Parliament, for the purpose of constructing, or acquiring, and working large public undertakings such as railways, gas companies, electric light companies. It is said to have been the invention of a lawyer and to have originated in the well-known love of the Court of Chancery for a Cash statement.

**Applicability of Double Account System.**—The Double Account System is compulsory in the case of Railway and Tramway Companies governed by the Regulation of Railways Act, 1868, and Parliamentary Gas Companies adopting the Gas Works Clauses Act, 1871. Under the Electric Lighting Acts, 1882-90, the Board of Trade has prescribed for Electric Light Companies a form of accounts based on the Double Account System. The system is also adopted by other companies, especially those which invest their capital in fixed or permanent assets for the purpose of earning income, such as Tramway, Canal and Shipping Companies, Water and Electric Power Companies, Telegraph and Telephone Companies, Mining and Quarrying Companies, and Companies holding lands and buildings for letting purposes.

**Distinction between Double Entry and Double Account System.**—Double Entry is a special system of book-keeping; the Double Account System is a set of special statutory forms for presentation of final accounts. The principles of double entry are just as applicable to companies adopting the Double Account System as to any other company or business firm.

**Difference between Single Account and Double Account Systems.**—In the Single Account System, the assets and liabilities all appear in one final account, called the Balance Sheet. In the Double Account System, the Balance Sheet is divided into two parts, one part, called the Capital Account, dealing with the *fixed* assets and liabilities, and the other part, called the General Balance Sheet, dealing with the *floating* assets and liabilities. In the Single Account System

the assets appear in the Balance Sheet less any depreciation written off them. In the Double Account System the assets are never depreciated, but appear in the Capital Account at cost.

**Special Features of the Double Account System.**—The distinguishing features of the Double Account System are—

(1) The division of the Balance Sheet into two parts or accounts : (a) the Capital Account ; (b) the General Balance Sheet.

(2) The separation of the *Fixed* Assets and Liabilities from the *Floating* Assets and Liabilities.

(3) The non-depreciation of the Assets.

**Capital Account.**—This is the first part of the Double Account Balance Sheet. It represents the balances of the various items of Capital Receipts and Expenditure as they appear in the special Capital Account Ledger. On the one side are receipts from shares or stock and debentures, including also any premiums. On the other side appear the various assets on which the money thus received has been expended. Law Charges in connection with Land, and Parliamentary Expenses in promoting special Acts of Parliament, also appear as items of Capital Expenditure.

**General Balance Sheet.**—This is the second part of the Double Account Balance Sheet. It contains the balance of the Capital Account (in Electric Light Companies the totals of each side), the floating assets—Stocks, Debtors, Cash, etc., and the floating liabilities—Creditors, Reserve Fund, Depreciation Fund, etc., and Revenue Account balance.

**Distinction between Capital and Revenue.**—This distinction is carefully maintained under the Double Account System. Capital Expenditure comprises the various sums spent in acquiring or constructing and extending the undertaking. Revenue Expenditure consists of repairs, renewals, and current expenses incurred in working the concern. Capital Receipts embrace all amounts received from the shareholders or stockholders and debenture holders. Revenue Receipts comprise all income earned by the undertaking. The surplus of Revenue Receipts over Revenue Expenditure is considered to be profit, notwithstanding the fact that no provision has been made for loss of capital by wasting of assets.

**Depreciation and Renewals.**—Under the Double Account System the assets are never depreciated ; the undertaking is

expected to be maintained in proper working order out of revenue. Depreciation can, however, be provided for by charging a fixed percentage of each asset to the Net Revenue Account and crediting it to a Depreciation Fund Account. Such Funds are compulsory in the case of Gas Companies, for leasehold works, and, in the case of Electric Light Companies, for leasehold works, buildings, plant and machinery, and must be represented by actual investments. Some companies also charge Net Revenue Account with a fixed amount each year and credit it to a Repairs and Renewals Fund Account. The cost of the actual repairs and replacements is then charged to the Fund instead of to Revenue. This has the effect of averaging such charges, and prevents a very large item of such expenditure in any one year reducing the normal rate of dividend or rendering it impossible to pay a dividend at all.

**Advantages of the Double Account System.**—The only advantage of the Double Account System seems to be that the Capital Account, being in the nature of a Cash Account, would be readily understood by shareholders and others not versed in the science of accountancy. It can easily be seen, on the one side, how much money has been received from the shareholders and debenture holders, and on the other side, how such money has been expended, and also how much of it remains for the purpose of working the undertaking.

**Disadvantages of the Double Account System.**—The disadvantages of this system are—

(1) The Balance Sheet is not a true representation of the state of affairs, as the assets, not being depreciated, appear therein at cost, no matter how long they have been in use, and, in fact, even when any such assets have been abandoned as useless or no longer required.

(2) The profits of the various years are not accurately stated. The fixed assets have to be replaced out of revenue. This involves a heavy charge against the revenue of the particular year in which the renewal takes place. Inasmuch as the asset has been rendering the same service each year, the cost of renewal should be charged proportionately against each year. The previous years, however, have borne no part of the charge at all, and to this extent, therefore, the profits of those particular years have been overstated; while the profits of the year in which the renewal takes place will, consequently, be under-stated. This defect can be remedied by



means of a Repairs and Renewals Fund as explained previously. Such an arrangement, however, is undoubtedly a modification of the original idea underlying the Double Account System.

**Additions and Extensions.**—Any additional assets acquired are, of course, added to the Capital Account. Replacements, however, are often attended with additions or extensions of the original asset, and the cost of such replacements has then to be allocated between capital and revenue. Two methods are in vogue. By the first way the original cost of the asset, as it appears in the Capital Account, is charged to revenue; the cost of the replacement, including the extension, is then capitalised. The second way is to estimate the cost of replacing the asset as it stands, *i.e.*, without any additions, and to charge this amount to revenue; the balance between this amount and the actual cost is then treated as capital expenditure. For example, suppose an asset stood in the books at £100,000, that it was rebuilt and enlarged at a cost of £150,000, and that the estimated cost of replacing it as it stood was £90,000. Under the first method, £100,000 would be charged to Revenue, and £150,000 would appear in the Capital Account; by the second way, £90,000 would be allocated to Revenue, and £160,000, that is, an extra £60,000, would be capitalised. Any sums of money realised by the sale of old material are credited to Revenue Account, being shown as a deduction from the cost of the replacement charged therein.

**Conversion of Ordinary Stock.**—Under the Regulation of Railways Act, 1868 (Section 13), Railway Companies, which in the year immediately preceding have paid a dividend on their Ordinary Stock of not less than *£3 per cent. per annum*, have power to divide their paid-up Ordinary Stock into two classes: Preferred Ordinary Stock and Deferred Ordinary Stock. But

Preferred and Deferred Ordinary Stock shall be issued only in substitution for equal amounts of paid-up Ordinary Stock, and by way of division of portions of Ordinary Stock into two equal parts.

Such Stock can only be issued in sums of £10 or multiples of £10. For every £100 of Ordinary Stock, therefore, there will be £100 Preferred Ordinary Stock and £100 Deferred Ordinary Stock. The nominal amount of the new Stock will be £200, and it will be issued virtually at a discount of 50 per cent. The object of such “splits” is to make the Stock



more marketable. As such a conversion is only a paper transaction, the amount appearing in the Capital Account will not require any alteration ; it is simply recorded in the "Statement of Stock and Share Capital Created." Some accountants, however, prefer to show the conversion in the Capital Account itself, entering the Discount on the Expenditure side and the nominal increase of Capital on the Receipts' side. Inasmuch as the Capital Account is a Cash Account, and no extra Cash has been received, this is a distinct violation of the principle of the Double Account System.

**Note on Examination Work.**—When Calls in Arrear and Debenture Discount appear in the Trial Balance, they must not be shown either in the Capital Account or the General Balance Sheet. The Calls in Arrear must be deducted from the Capital, and the Debenture Discount from the Debentures, and only the net amounts entered in the Capital Account. Premiums and Calls in Advance would, however, be shown in the Capital Account.

**Prescribed Forms of Account.**—The forms for Railway Companies, Gas Companies, and Electric Light Companies will be found under these respective headings.

**DOUBLE ENTRY.**—Double Entry is that system of book-keeping which, recognising the fundamental fact that each transaction in business has a *twofold* aspect, makes a complete record of each transaction by booking it up *twice*, placing the amount to the *debit* of one account and to the *credit* of another.

**Advantages of Double Entry are—**

(1) There is a complete record of each transaction. Transactions have two sides : a receiving side, and also a giving side, and take place not only with persons, but also with things. Under single entry only the personal side is booked up, hence the record is incomplete ; whereas in double entry both personal and impersonal accounts are kept.

(2) Full information is furnished concerning the business. Under single entry the only information given by the books relates to the debtors and creditors. Under double entry we obtain, by means of the impersonal accounts, additional information, namely, about the property and assets of the business, and also about the various gains and losses.

(3) There is a check upon the arithmetical correctness of the work. As each transaction is booked up twice, to the debit of one account and to the credit of another, every debit

has a corresponding credit, and *vice versâ*. The total debit in the Ledger at any time must therefore equal the total credit. There is no such proof in single entry.

(4) A Balance Sheet may be prepared at the end of the financial period from the double entry books themselves. This is not possible under single entry.

**DOUBTFUL DEBTS.**—(See BAD DEBTS RESERVE.)

DR.—An abbreviation for Debtor, placed at the top of a Ledger Account on the left-hand side.

DRAFT.—(See BILL OF EXCHANGE.)

**DRAWEE.**—(See BILL OF EXCHANGE and CHEQUE.)

**DRAWER.**—(See BILL OF EXCHANGE and CHEQUE.)

**DRAWING ACCOUNT.**—An account used to record all sums drawn by the proprietor or, or partners in, a business for his, or their, own use. In some cases the Drawings, especially when the partners have drawn *unequal* sums, are chargeable with interest. Interest on Capital, and Share of Profits, are sometimes shown in the Drawing Account instead of the Capital Account. The balance of the Drawing Account is transferred to the Capital Account, unless the latter is a fixed amount; in such cases the balance is carried to the Balance Sheet, as shown under Partnership Accounts, and the Drawing Account is better termed a "Current Account."

**Example 1 (without Interest)—**

Dr.		A. BROWN, DRAWING ACCOUNT.		Cr.	
19..				19..	
Mar. 1	To Cash .. ..	50		Dec. 31	By Transfer to Capital A/c.. ..
June 1	" " .. ..	60			190
Sept. 1	" " .. ..	45			
Dec. 1	" " .. ..	35			
		190			190

Example 2 (with 5 per cent. Interest)—

Dr.		A. BROWN, DRAWING ACCOUNT.										Cr.	
19..		Interest					19..						
Mar. 1	To Cash ..	2	1	8	50			Dec. 31	By Transfer to Capital A/c.. ..	194	14	7	
June 1	" " ..	1	15		60								
Sept. 1	" " ..		15		45								
Dec. 1	" " ..		2	11	35								
" 31	" Interest..				4	14	7						
					194	14	7			194	14	7	

## Example 3—

Dr		A. ARCHER, DRAWING ACCOUNT.				Cr.	
19..					19..		
June 30	To Cash .. ..	150			Dec. 31	By Interest on	
Sept. 30	" " .. ..	80				Capital ..	100
Dec. 30	" " .. ..	70			" "	" Share of Profit	274 15
" 31	" Balance to	74	15				
	Capital A/c ..						
		374	15				

**Goods taken by Proprietor or Partners for Own Use.**—When the proprietor or partners take *goods* from the business at cost price for their own use, these are debited to their Drawing Accounts and credited to the Sales Account, either by Journal entry or through the medium of the Sales Book. Where, however, the amounts are large, they should be credited to a separate account entitled "Goods taken by Self," or "Goods taken by Partners," as the case may be, in order to avoid fictitiously increasing the Sales. Such an account would be closed at balancing time by transfer to Trading Account.

**DRAWINGS AND PATTERNS.**—These are treated as an asset, a separate account being opened for them. They are depreciated periodically either by re-valuation or by means of a fixed rate on diminishing values.

**DUE DATE.**—(See AVERAGE DUE DATE.)

**DUTY ACCOUNT.**—This includes both Customs and Excise Duties. It is closed by transfer to Trading Account at the periodical balancing.

**EARNED INCOME.**—(See INCOME TAX.)

**E. & O. E. (E.E.).**—An abbreviation for errors and omissions excepted (errors excepted). A note placed at the foot of invoices and statements of account reserving the right to send amended documents should any errors, etc., come to light.

**ELECTRIC LIGHTING COMPANIES' ACCOUNTS.**—These are kept on the Double Account System, to which the student should refer. On the following pages are the prescribed forms.



Dr.

## No. III.

CAPITAL ACCOUNT,  
for the Year ending 31st December, 19...

Cr.

	Expenditure up to 31 Dec., 19...	Expended during the Year.	Total Expenditure to 31 Dec., 19...		Receipts up to 31 Dec., 19...	Received during Year.	Total Receipts to 31 Dec., 19...
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
<i>To expenditure to 31st December 19...</i>							
<i>Expenditure since that date.</i>							
1. To Lands, including Law Charges incidental to acquisition ..				By Ordinary Shares of £ ..			
2. " Buildings .. ..				" " " of £ ..			
3. " Machinery .. ..				" Debenture Stock .. ..			
4. " Accumulators at generating and distributing stations. ..				" Mortgages and Bonds ..			
5. " Mains, including cost of laying the mains .. ..				" Amounts received in anticipation of Calls .. ..			
6. " Transformers, Motors, etc. ..				" Sale of Patents or Patent Rights, etc. .. ..			
7. " Meters and Fees for certifying under the Act .. ..				" Other Receipts (to be specified) ..			
8. " Electrical Instruments, etc. ..							
9. " General Stores (Cable, Mains, Lamps) .. ..							
10. " Purchase of Patents or Patent Rights .. ..							
11. " Cost of Licence, Provisional Order, etc. .. ..							
12. " Special Items .. ..							
Total expenditure .. ..	..	..					
To balance of Capital Account ..							

1 revision for depreciation of works is made by a debit of £                      to Revenue Account transferred to Depreciation Fund Account, No. VII.

Dr.

## REVENUE ACCOUNT,

Cr.

No. IV.

For the Year ending 31st December, 19...

		£	s.	d.	£	s.	d.	£	s.	d.
<i>A.—To generation of Electricity.</i>										
1.	To Coals or other Fuel, including dues, carriage, unloading, storing, and all expenses of placing the same on the works							1.	By Sale of Current per meter at per B.T.U...	
2.	" Oil, Waste, Water, and Engine Room Stores...							2.	" Sale under Contracts .. ..	
3.	" Proportion of Salaries of engineers, superintendents, and officers, as certified by the Managing Director, Chairman, or Engineer							3.	" Public Lighting .. ..	
4.	" Wages and Gratuities at generating stations...							4.	" Rental of Meters and other apparatus on consumers' premises .. ..	
5.	" Repairs and Maintenance, as follows—							5.	" Sale and Repairs of Lamps, arc or incandescent .. ..	
	£ s. d.								" Sale and Repairs of other Apparatus ..	
1.	Buildings .. ..							6.	" Royalties, Licences, etc. .. ..	
2.	Engines, boilers .. ..							7.	" Rents Receivable .. ..	
3.	Dynamos, exciters, transformers, motors, etc. .. ..							8.	" Transfer Fees.. ..	
4.	Other machinery, instruments, and tools .. ..							9.	" Other Items (to be specified) .. ..	
5.	Accumulators and accessories .									
	Less received for old material .									
6.	To Special Items .. ..								Carried forward ..	£
	Carried forward									



Dr.

No. IV.—*cont.*REVENUE ACCOUNT.—*cont.*

Cr.

	£	s.	d.	£	s.	d.		£	s.	d.
Brought over .. ..	..	..	..				Brought over .. ..	..	..	..
<b>B.—To distribution of Electricity.</b>										
1 To Proportion of Salaries of superintendents and officers, as certified by Managing Director, Chairman, or Engineer .. ..	..	..	..							
2 " Wages and Gratuities to linesmen, fitters, labourers .. ..	..	..	..							
3 " Repairs, Maintenance, and Renewals of Mains of all classes, including materials and laying the same .. ..	£	s.	d.							
Less amounts refunded .. ..	..	..	..							
4 " Repairs, Maintenance, and Renewals of transformers, meters, switches, fuses, and other apparatus on consumers' premises.. ..	..	..	..							
5 " Repairs, Maintenance, and Renewals of apparatus at distributing stations .. ..	..	..	..							
<b>C.—To Public Lamps.</b>										
1. " Attending and Repairs .. ..	..	..	..							
2. " Renewals of Lamps .. ..	..	..	..							
Carried forward .. ..	£						Carried forward .. ..	£		



*Dr.*  
No. IV.—*cont.*

REVENUE ACCOUNT—*cont*

*Cr.*

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
Brought over .. ..							Brought over .. ..						
G.— <i>To Law and Parliamentary Charges.</i>													
1. To Law Expenses .. ..													
H.— <i>To Depreciation.</i>													
1. " Depreciation in respect of Leasehold Works ..													
2. " " Buildings .. ..													
3. " " Plant, Machinery, etc. .. ..													
I.— <i>To Special Charges.</i>													
1. " Insurances, Superannuation, etc. .. ..													
2. " Expenses for certification of Meters .. ..													
Total expenditure .. ..													
Balance carried to Net Revenue .. ..													



Cr.

## GENERAL BALANCE SHEET.

Dr.

No. VIII.

Liabilities.		Assets.	
£	s. d.	£	s. d.
1.	To Capital Account: Amount received as per Account No. III .. .. .	1.	By Capital Account: Amount expended for works as per Account No. III .. .. .
2.	" Sundry Tradesmen and others, due on construction of plant and machinery, fuel, stores, etc., to 31st Dec., 19 ..	2.	" Stores on hand at 31st December, 19.. ..
3.	" Sundry Creditors on open accounts .. .. .		Coal .. .. .
4.	" Net Revenue Account: Balance at credit thereof ..		Oils, Waste, etc. .. .. .
5.	" Reserve Fund Account .. .. .		General .. .. .
5.	" Depreciation Fund Account .. .. .	3.	By Sundry Debtors for amounts paid on account of con- tracts in course of completion.. .. .
		4.	" Preliminary Expenses .. .. .
		5.	" Sundry Debtors for current supplied to 31st Dec., 19..
		6.	" Other Debtors .. .. .
		7.	" Cash at Bankers—
			Messrs .. .. .
			Messrs. .. .. .
			Messrs. (amount on deposit)
		8.	" Cash in hand .. .. .
</			

No. IX. STATEMENT OF ELECTRICITY GENERATED, SOLD, &c.

Quantity generated in B. T. Units.	QUANTITY SOLD.			Quantity used on Works.	Total Quantity accounted for.	Quantity not accounted for.	Number of Public Lamps.	Total Maximum Supply demanded.
	Public Lamps.	By Contract.	Private Consumers by Meter.					



**ELECTRIC LIGHT INSTALLATION—ELECTRIC POWER INSTALLATION.**—The cost of installation would, in each case, be booked up as an asset. The annual charge for maintenance and also for depreciation would be charged to Revenue or Profit and Loss Account. Where a business does not have its own electric light and power, the charge for electric light is debited to Profit and Loss, while the charge for electric current or power is debited to Manufacturing or Trading Account.

**EMPLOYERS' LIABILITY INSURANCE.**—The premiums paid to the Insurance Company are charged up to an account of this name, which is closed at balancing time by transfer to Profit and Loss.

**ENDOWMENT POLICY.**—(See LIFE ASSURANCE.)

**ENGINE ROOM STORES.**—These comprise engine oil, cotton waste, tallow, soft soap, etc. They are generally charged to a Consumable Stores Account.

**ENGINES, BOILERS, and SHAFTING.**—(See DEPRECIATION RATES.)

**ENTRY.**—A record of a transaction in its appropriate book or place.

**Blind Entry.**—An item entered in a Ledger without being previously entered in one of the subsidiary books.

**Compensating Entry.**—(See RECTIFICATION OF ERRORS.)

**Cross Entry.**—(See CASH BOOK.)

**Original Entry.** The first entry of a transaction in any of the subsidiary books, which are, therefore, called Books of Original Entry. They comprise the Purchases, Sales, Returns, and Bill Books, also the Cash Book, although the latter is, strictly speaking, a part of the Ledger.

**EQUATED INTEREST.**—(See AVERAGE DUE DATE.)

**EQUATION OF PAYMENTS.**—(See AVERAGE DUE DATE.)

**EQUITABLE ASSETS.**—(See MARSHALLING OF ASSETS.)

**EQUITABLE LIEN.**—(See LIEN.)

**ERROR.**—Any item omitted, incorrectly entered, extended, added or subtracted, wrongly posted, etc.

**Compensating Error.**—An error of equal amount on both sides of the Ledger. Thus, if the debit side of one account be over-added by £10, and the credit side of another account be over-added by £10, such an error will not prevent the two sides of the Trial Balance agreeing, as the error on the one side compensates or makes up for the other.

**ERRORS, CORRECTION OF.**—(See RECTIFICATION OF ERRORS.)

**ESTABLISHMENT EXPENSES.**—(See COST ACCOUNTS, CONTRACT ACCOUNTS.)

**ESTATE DUTY.**—This is a graduated stamp duty levied on the principal value of all property, real and personal, passing at death, after deduction of debts, incumbrances, and reasonable funeral expenses. By the Finance Act, 1919, the rates of Estate Duty are according to the following scale—

VALUE OF ESTATE.		Rate per cent.	
Exceeds £100 and does not exceed			charged.
£500	£500	.	1
" £500 "	£1,000	.	2
" £1,000 "	£5,000	.	3
" £5,000 "	£10,000	.	4
" £10,000 "	£15,000	.	5
" £15,000 "	£20,000	.	6
" £20,000 "	£25,000	.	7
" £25,000 "	£30,000	.	8
" £30,000 "	£40,000	.	9
" £40,000 "	£50,000	.	10
" £50,000 "	£60,000	.	11
" £60,000 "	£70,000	.	12
" £70,000 "	£90,000	.	13
" £90,000 "	£110,000	.	14
" £110,000 "	£130,000	.	15
" £130,000 "	£150,000	.	16
" £150,000 "	£175,000	.	17
" £175,000 "	£200,000	.	18
" £200,000 "	£225,000	.	19
" £225,000 "	£250,000	.	20
" £250,000 "	£300,000	.	21
" £300,000 "	£350,000	.	22
" £350,000 "	£400,000	.	23
" £400,000 "	£450,000	.	24
" £450,000 "	£500,000	.	25
" £500,000 "	£600,000	.	26
" £600,000 "	£800,000	.	27
" £800,000 "	£1,000,000	.	28
" £1,000,000 "	£1,250,000	.	30
" £1,250,000 "	£1,500,000	.	32
" £1,500,000 "	£2,000,000	.	35
" £2,000,000 "		.	40

**Small Estates.**—Where the GROSS value of the property, real and personal, on which Estate Duty is payable on the death of the deceased, exclusive of property settled otherwise than by the will of the deceased exceeds £100, but does not exceed £300, a fixed duty of 30s. *may be* paid, and where it exceeds £300 but does not exceed £500, a fixed duty of 50s. *may be* paid. Where the fixed duty of 30s. or 50s. has been paid, and it is afterwards discovered that the gross value of the property exceeds £500, the *ad valorem* duty according to the true value is payable, and no allowance can be made for the duty paid at first. But where 30s. has been paid and it is discovered that 50s. should have been paid, the difference only is payable. Where, however, the deceased died on or after the 1st September, 1903, and the Commissioners are

satisfied that there were reasonable grounds for the original estimate of the value of the property, an allowance may be made for the duty paid at first.

**Deductions Allowed.**—Allowance against the gross principal value of an estate is made for reasonable funeral expenses and for debts and encumbrances (including mortgages or terminable charges incurred or created by the deceased *bonâ fide* for full consideration in money or money's worth wholly for his own use and benefit, and which take effect out of his interest.

**Principal Value.**—The principal value of any property is the price which, in the opinion of the Commissioners, such property would fetch if sold in the open market at the time of the deceased's death.

**Aggregation.**—For determining the rate of Estate Duty to be paid in respect of any property passing on the deceased's death, all property so passing, in respect of which Estate Duty is leviable, is to be aggregated so as to form one estate, and the duty is to be levied at the proper rate on the principal value thereof.

**Property not to be Aggregated.**—Where the net value of the property, real and personal, on which Estate Duty is payable on the death of the deceased, where the death occurs *at any time after* the 1st August, 1894, including property over which the deceased had and exercised by will a general power of appointment, and property which by default of exercise of the power of appointment belonged to the deceased absolutely, but exclusive of other property settled otherwise than by the will of the deceased, does not exceed £1,000, such property is not to be aggregated with any other property, but is to form an estate by itself.

Any property—settled or not—passing on the death of the deceased, which consists of such pictures, prints, books, etc., not yielding income as appear to the Treasury to be of national, scientific, historic, or artistic interest is not to be aggregated with other property, but is to form an estate by itself, and Estate Duty is chargeable thereon only when the property is sold, and then only in respect of the last death on which the property passed.

**Duty on Gifts *inter vivos*.**—Estate Duty is leviable upon the principal value of all *inter vivos* gifts of property made by the deceased within three years of his death without reservation, unless any such gifts (1) were made before the 30th April, 1908; (2) were made for public or charitable purposes more

than twelve months before the death ; (3) were made in consideration of marriage, ; or (4) are proved to the satisfaction of the Commissioners to have been part of the normal expenditure of the deceased, and to have been reasonable, having regard to the amount of his income, or to the circumstances, or which, in the case of any donee, do not exceed n the aggregate £100 in value or amount.

**Time for Duty—Additional Duty.**—The duty, which is to be collected upon an Inland Revenue Affidavit or Account, is due on the delivery thereof, or at the expiration of six months from the death, whichever first happens ; except in the case of such objects of national, etc., interest mentioned on previous page, where the duty is due one month after the date of sale, or six months after their coming into possession of a person competent to dispose of them, as the case may be, or on delivery of the Account, whichever first happens.

Estate Duty is, in the first instance, calculated at the appropriate rate according to the value of the Estate, as set forth in the Inland Revenue Affidavit or Account delivered, but if afterwards it appears that for any reason too little duty has been paid, the additional duty is payable, and is treated as duty in arrear.

**Interest on Duty.**—Simple interest at 3 per cent. per annum, without deduction for income tax, is payable upon all Estate Duty from the date of the deceased's death, or, where the duty is payable by instalments, or becomes due at any later date than six months after the death, from the date at which the first instalment or the duty becomes due, and is recoverable in the same manner as if it were part of the duty.

When the fixed duty of 30s. or 50s. on small estates is paid within twelve months after the death of the deceased, interest is not charged.

**Duty Payable by Instalments.**—The Estate Duty due upon an account of real property may, at the option of the person delivering the account, be paid by eight equal yearly instalments or sixteen half-yearly instalments, with interest at the rate of 3 per cent. per annum from the date at which the first instalment is due, and the first instalment is to be due at the expiration of twelve months from the death, and the interest on the unpaid portion of the duty is to be added to each instalment and paid accordingly, but the duty for the time being unpaid, with such interest to the date of payment, may be paid at any time, and, in case the property is sold, is to

be paid on completion of the sale, and if not so paid, is to be duty in arrear.

The Estate Duty in respect of any annuity or other definite annual sum referred to in Section 2 (1) (d) of the Finance Act, 1894, may be paid by four equal yearly instalments, the first to be due twelve months after the death. Interest on the whole unpaid duty is to be added to the second and subsequent instalments.

**Settlement Estate Duty.**—Where property, in respect of which Estate Duty was leviable, was settled by the will of the deceased, or having been settled by some other disposition passed under that disposition on the death of the deceased to some person not *competent to dispose* of the property, a further Estate Duty of 2 per cent., called “Settlement Estate Duty,” was leviable upon the principal value of the settled property, except where the only life interest in such property, after the deceased’s death, was that of the husband or wife of the deceased; or, where the disposition took effect before the 2nd August, 1894; or, under the deceased’s will, where the net value of the property in respect of which Estate Duty was leviable on the death of the deceased, exclusive of property settled otherwise than by the deceased’s will, did not exceed £1,000. *The Settled Estate Duty, also the Estate Duty, was payable only once during the continuance of the same settlement.* It was, however, abolished under the Finance Act, 1914.

“Settled Property” is property comprised in a “settlement,” and a “settlement” is any instrument which is a settlement within the meaning of Sections 2 and 58 of the Settled Land Act, 1882, or which if it related to real property would be a settlement within the meaning of those Sections, and includes a settlement effected by a parol trust.

Settlement Estate Duty leviable in respect of Personal Property settled by the deceased’s will (unless the will contains an express provision to the contrary), was, *where the deceased died on or after the 1st July, 1896*, payable out of the settled property in exoneration of the rest of the deceased’s estate, within six months after the death.

**ESTATE DUTY ACCOUNT.**—(See EXECUTORSHIP ACCOUNTS.)

**EXCHANGE ACCOUNT.**—Same as DIFFERENCE IN EXCHANGE ACCOUNT (*q.v.*).



**EXCHEQUER BILLS.**—These are promissory notes issued by the Treasury in multiples of £100 for three, six, or twelve months in order to raise money for temporary purposes.

**EXCHEQUER BONDS.**—Bonds issued by the Treasury for temporary financial purposes. They run for a definite period not exceeding six years, and have interest coupons attached.

**EX DIVIDEND.**—(See **DIVIDEND**.)

**EXECUTOR.**—The person appointed by the Will to administer the estate of a deceased testator. If the executor refuses to accept the office, he must formally “renounce the will” by filing a “notice of refusal” in the Probate Registry. If he decides to undertake the duties he must make himself acquainted with the provisions of the will, compile an inventory of the deceased’s property and debts at the date of death, and prepare an Estate Duty Account. After this has been sworn and passed by the Inland Revenue Authorities, the court will grant probate. This consists of a parchment copy of the will to which is attached the certificate of the probate court (a division of the High Court for the proof of wills). Probate is thus the official proof of the will, and the grant of probate by the Court empowers the executor to deal with the deceased’s estate. (See **ADMINISTRATOR**.)

**Example 1.**—X died on the 31st Dec., 19.., leaving the following estate—

£7,000 2½ % Consols at 78½-79½ ex div.

£2,000 4 % Columbia Bonds at 95½-95¾.

100 £1 Shares in Success Gold Mines, Ltd., fully paid at £10.

Cash in House, £15; at Bank, £250.

Cash on Deposit, including Interest to date, £630.

Loan on Mortgage £2,000 at 5 %. Interest paid to 30th June last.

Life Policy for £4,000. Bonus additions £400. Loan on policy,

£2,000 at 4 %. Interest paid to date.

Household Furniture and Effects valued at £2,000.

Goodwill of Business, £1,250.

Share as partner in business of X. Y. Z. & Co., Capital plus Profit less Drawings to date, £6,215.

Ships and Shares of Ships, £300.

Leasehold Property valued at £3,000, assessed under Sch. A at £300 per annum. Ground Rent paid to date.

Mortgage on above, £1,200 at 5 %. Interest paid to date.

Rents of Leasehold Property at £75 per quarter, paid to 29th Sept. of current year.

Freehold House in England, gross assessment Sch. A, £270.

Estimated value = 13½ years’ purchase of net annual value, £225.

Mortgage on above to A. Lender, £1,000 at 5 %. Interest thereon paid to date of death.



Loan to Friedrich Braun, of Hamburg, £500. Estimated expense of realising, £20.

Debts due at death, payable out of property situate in England—

Dr. Sands for Medical Attendance, £65.

Sundry Persons for Private Expenses, £60.

Sundry Tradesmen for Household Expenses, £220 : 14 : 6.

Funeral Expenses (A. Undertaker & Co.), 40 guineas.

From the above particulars prepare an Estate Duty Account for the Inland Revenue Authorities, showing the total Duty payable. The affidavit was presented on the 31st March of the following year. (See p. 391, etc.)

**EXECUTORSHIP ACCOUNTS.**—Accounts relating to the estate of a deceased person.

**Example.**—From the previous example for Estate Duty Account, and also from the following particulars, write up the books and show the Ledger Accounts for the half-year ending 30th June, 19.., the estate being left in trust for the only son.

19..		RECEIPTS.
Jan.	1.	Rent of Leasehold for Dec. quarter
"	5.	Dividend on Consols <i>less</i> tax. <sup>1</sup>
"	12.	Interest on Loan on Mortgage for half-year to Dec. last, <i>less</i> tax.
Mar.	25.	Leasehold Rent for Mar. quarter <i>less</i> Sch. A tax for year.
"	31.	Dividend on Columbia Bonds for quarter to date <i>less</i> tax.
April	1.	Life Policy and Bonuses <i>less</i> Loan.
"	4.	Loan to F. Braun, of Hamburg, realised £450 net.
"	5.	Dividend on Consols <i>less</i> tax for quarter to date.
May	15.	Ships and Share of Ships realised £250 net.
"	31.	Freehold House sold for £3,200 net.
"	"	Household Furniture, etc., realised net £2,050.
June	24.	Leasehold Rent for quarter to date.
"	30.	Interest on Bank Deposit at 4 % p.a. for half-year to date.
"	"	Dividend for half-year to date on Gold Mine Shares, 25 % free of tax.
"	"	Dividend on Columbia Bonds for quarter to date <i>less</i> tax.
"	"	Goodwill of Business plus Interest to date at 5 % <i>less</i> tax.
"	"	Share in Business of X. Y. Z. & Co. plus Interest to date at 5 % per annum <i>less</i> tax.
"	"	Half-year's Interest on Mortgage Loan <i>less</i> tax.
19..		PAYMENTS.
Mar.	31.	Estate Duty and Interest.
April	21.	Debts due at death, also Funeral Expenses.
"	22.	Son on account, £50.
May	31.	Mortgage on Freehold paid off plus Interest to date at 5 % per annum <i>less</i> tax.
"	"	Son on account, £50.
June	30.	Mortgage on Leasehold paid off plus Interest to date at 5 % per annum <i>less</i> tax.
"	"	Son on account, £150.

(For solution see page 405, etc.)

<sup>1</sup> Rate of tax, 1s. 2d. in the £ throughout.

## SCHEDULE No. 5.

An account of the debts and incumbrances upon the Real property in Account No. 5. (See Clauses 43 to 47 of the Form A—2 as to what debts and incumbrances may *not* be deducted, AND SEE FIRST NOTE TO SCHEDULE No. 1.) *Where the debts on the Deceased's real property exceed the value thereof, and the deficiency is a proper deduction for Estate duty purposes against the Deceased's personal property, deduction of such deficiency may be taken in Schedule No. 1.*

Nature of debt or incumbrance and by whom created.	Short material particulars of security, with date of and names of parties to any deed, and name of any testator, and date of Probate of his will.	Short particulars of property charged, to identify it in above Account.	Names and addresses of persons to or in whom the debt or incumbrance is now due or vested.	Amount of debt or incumbrance.		
				£	s.	d.
<i>Loan</i>	<i>Mortgage Deed</i>	<i>Freehold House</i>	<i>A. Lender</i>	1,000		
Total .. .. £				1,000		

To be signed by the persons making oath or affirmation |

*Note.*—Owing to exigencies of print, this Schedule has been brought forward a few pages. It should be read immediately after page 403.

Personal Property situate in the United Kingdom, and Real Property situate in England, for or in respect of which the Grant is to be made.

The Property situate in Scotland and Ireland respectively should be so marked.		FIRST PART.—PERSONAL PROPERTY.		No Foreign Property should be included in this Account.	
		Nominal Value of Stocks.		Market Price of Stocks at Date of Death.*	Gross Principal Value at DATE OF DEATH.
		£	s. d.		£ s. d.
Stocks or Funds (including Exchequer Bills) of the United Kingdom, viz.—					
Consols 2½% .. .. .	.. .. .	7,000		79 ex. div.	5,530
Stocks, Funds, or Bonds of Foreign Countries, or of British Dependencies, and Colonies, transferable in the United Kingdom, viz.—					
4% Columbia Bonds .. .. .	.. .. .	2,000		95½	1,905
Proprietary Shares or Debentures of Public Companies (A)—					
Success Gold Mines, Ltd.				10	1,000
100 £1 Shares fully paid .. .. .	.. .. .	100			
Dividends and Interest declared, received, and accrued due, in respect of the above Investments, to date of death, as <i>per statement annexed</i> .. .. .					
Consols 2½% Dividend from 6 Oct.—31 Dec., less tax at 1/2 in the £ ( $\frac{8}{100}$ of £175)					39 5 8
Cash in the House .. .. .	(1) on Drawing Account, and Interest (if any) thereon, to date of death .. .. .				15
Cash at the Bankers (B) .. .. .	(2) on Deposit, and Interest thereon to date of death .. .. .				250
Money out on Mortgage, and Interest thereon to date of death, as <i>per statement annexed</i> .. .. .					630
Money out on Bonds, Promissory Notes, and other Securities, and Interest thereon to date of death, as <i>per statement annexed</i> , less tax at 1/2 .. .. .					2,047 1 8

Where there is not sufficient space to insert all the particular details of the different items, a separate schedule should be annexed.

(A) Where securities have been valued according to the official list of a *Provincial* Stock Exchange, a copy of that List should be attached. But where there is no official market quotation, other published Quotations or Brokers' Certificates, or Letters from the Secretaries of the Companies, showing the market price at the date of death, should be attached (\*).

(B) The name or names of the banks should be stated.

(C) If the power or interest was derived under a Will, state name and date of death of the Deceased, but if under a Deed, state the date, together with names and addresses of the Trustees, and if the Deed has been

(D) Annex a schedule of such specific articles bequeathed for national or quasi-national purposes as are within the purview of Sect. 15 (2) of the Finance Act, 1894. See Clauses 19 and 27 of Form A-2. State the value in each case, and whether the Treasury has remitted the Estate Duty thereon, and, if not, whether it is intended to apply for remission.

Annex also a schedule of such specific articles as are settled to be enjoyed in kind in succession by different persons as are within the purview of Sect. 20 (1) of the Finance Act, 1896. See Clauses 20 and 28 of Form A-2. State the value in each case, and whether the Treasury has authorised the application of the section to them, and if not whether it is intended to apply for authorisation. State also whether the property has yet been sold, or is in the possession of a person now competent to dispose of it.

\* *Market Price of Stocks, etc.*—Where there is a published quotation, a price should be adopted as an estimated price. For, example: Where the "closing prices" of the official "closing prices" should be adopted as an estimated price. Where the death occurred on a Sunday, or other day for  

$$\frac{100-98}{100} = 98\frac{1}{2}\%$$
 Where the market price is 98 +  $\frac{100-98}{100} = 98\frac{1}{2}\%$

Unpaid Purchase Money of Real and Leasehold Property contracted in life-time of the Deceased to be sold .. .. .  
Deceased's Interests in proceeds of sale of Real Property directed to be sold by settlement or by will of some other person whether actually sold or not, estimated at (C) .. .. .  
Personal Property over which the Deceased had and exercised by will an absolute power of appointment (C) .. .. .  
Personal Property over which the Deceased had, but did not exercise, a general power of appointment, and which, by default of exercise of the power of appointment, belonged to the Deceased absolutely (C) .. .. .  
Policies of Insurance, and Bonuses (if any) thereon, on the life of the Deceased, as *per statement annexed*, £4,400 less Loan £2,000 .. .. .  
Saleable value of Policies of Insurance and Bonuses (if any) on the life of any person other than the Deceased, as *per statement annexed* .. .. .  
(D) Household Goods, Pictures, China, Linen, Apparel, Books, Plate, Jewels, Carriages, Horses, etc. .. .. .

(E) If sold, realised gross £2,000  
If unsold, estimated at £2,000

Stock-in-Trade, Live and Dead Farming Stock, Implements of Husbandry, etc.—

If sold, realised gross £  
If unsold, estimated at £

Carried forward

15,816 |

7

予

ACCOUNT No. 1.—FIRST PART (continued).

Gross Principal Value  
at DATE OF DEATH.

£ s. d.

15,816 7 4

1,250

Brought forward ..

£1,250

Goodwill of Business, if taken over at a price ..

If valued according to custom of trade..

If neither, estimated at ..

(viz., ..... years' purchase of net profits).....

(F) Profits of Business from ..... 1..... to date of death ..

(G) Ships and Shares of ships registered at Ports in the United Kingdom, and

Profits of same to date of death, as per statement annexed, (H) estimated at ..

The deceased's share in Real and Personal Property as a Partner in the Firm

of X. Y. Z. & Co., as per Balance Sheet annexed, signed by the surviving

Partners .. .. .

If none, estimated at .. .. .

Leasehold Property (for years) as per detailed description subjoined or annexed—

Giving—

1. Particular description.

2. Term unexpired at date of death.

3. Gross Rents, where let, or if not

let, either the gross assessment to

property tax (not the reduced assess-

ment for collection of Income Tax,

under Finance Act, 1894, s. 35) or

gross (not rateable) assessment to

Poor Rate.

4. The Ground Rent.

5. The nature and amount of the

yearly outgoing paid by the Lessee

as owner.

Rents of the Deceased's own Real and Leasehold Property due prior to the

death, but not received by the Deceased (H) estimated at £75, less tax at

1/2 (on £300) accrued from 6th April to 25th December, £12 : 13 : 2 (a) ..

Apportionment of the rents of the Deceased's Real and Leasehold Property

to date of death, (H) estimated at £4 : 18 : 7 (b), less tax at 1/2, 5/9 (c) ..

(E) If there is a valuation, it should be annexed. The Commissioners reserve the right to require the separate value of each item to be stated, and in the case of pictures the names of the artists.

(F) State date from which profits are computed.

(G) A valuation must be annexed.

(H) These words to be cancelled where the amount is actually ascertained.

(I) No Mortgage Debt created or incurred by the Deceased himself is to be deducted unless such debt was created or incurred bond fide for full consideration in money or money's worth wholly for the Deceased's own use

If sold, realised gross .. £3,000

If unsold, estimated at .. £3,000

£3,000

Less (I) a Mortgage Debt of £1,200

due from the Deceased and created

by an Indenture dated the.....

day of....., 1....., for

which the said Leasehold Property

is the sole security.

62

6

10

4

12

10

The Deceased's Interest (L) expectant upon the death of  
now aged \_\_\_\_\_ years, under the Will of  
proved \_\_\_\_\_ or under a Settlement dated the  
\_\_\_\_\_ day of \_\_\_\_\_, 1\_\_\_\_\_, and made between

(setting out the parties to the Deed) in the Property (M) set out in the  
statement annexed, and of which Fund the present Trustees are

K) Other personal property not comprised under the foregoing heads, viz.

(a) Gross Personal Property in First Part of Account No. 1  
N.B.—(a) is the "gross value" which is to be carried  
to para. 3 on page 1.

(b) Deduct Total of First and Second Parts of Schedule No. 1  
N.B.—(b) is the "aggregate amount" which is to be  
carried to para. 5 on page 1.

(c) Net Personal Property in First Part of Account No. 1  
N.B.—(c) is the reduced "value" which is to be  
carried to para. 5 on page 1.

(d) Deduct (N) specific articles [see note (D) on page 3]  
where Estate Duty is either not payable at all, or is not  
now payable

(e) Balance remaining.. .. .

N.B.—(e) is the amount of "Personal Property [Account  
No. 1 (First Part)]" which is to be carried to  
Part I of the Summary.

(a) £388 of £17 10 0 (b) 388 of £300 (c) 388 of £17 10 0

£ 25,448 7

state name and date of  
death of the Deceased;  
but if under a Deed state  
the Date, together with  
names and addresses of  
the Trustees, and if the  
Deed has been already  
produced give the official  
reference appearing upon  
it.

(L) All interests in Ex-  
pectancy in personal pro-  
perty, whether vested or  
contingent, should be in-  
cluded, whether or not  
the property is chargeable  
with Estate duty, on the  
Deceased's death as pass-  
ing under the earlier dis-  
position.

(M) But Where the De-  
ceased was entitled to the  
interest expectant upon  
his own death, or upon  
the death of another per-  
son who survives him,  
and Estate duty is pay-  
able upon the corpus or  
the property on the De-  
ceased's death, the In-  
terest in Expectancy is  
not also chargeable with  
Estate duty on the De-  
ceased's death as part of  
his free Estate. Although  
as it is in fact part of his  
free Estate, its value  
must be looked at for the  
purposes of the Probate  
Court. The interest in  
Expectancy should be  
brought into this affi-  
davit, and be taken out  
again in the Summary on  
p. 8.

(N) No deduction is to  
be taken here unless Treas-  
ury authority has been  
first obtained.

N.B.—WHERE THE SPACE IS INSUFFICIENT, THE ACCOUNT



ACCOUNT NO. 1—(continued).

SECOND PART.—Real Property in England.

(NOTE.—This Account is NOT to include land of copyhold tenure or customary freehold where an admission, or any act by the lord of the Manor, is necessary to perfect the title of a purchaser from the customary tenant.)

Interests in expectancy in Real Property, where the circumstances are otherwise appropriate, should be included here, as well as interests in possession. Particulars, as in the case of interests in expectancy in Personal Property (see First Part above), should be furnished.

Real Property in ENGLAND vested in the Deceased without a right in any other person to take by survivorship .. .. .

(The particulars of that part of the property in respect of which the duty is to be now paid are stated in the First Part of the Account No. 5, and of that part of the property in respect of which the duty is not to be now paid in an "appropriate account" marked——.)

(C) Real Property in ENGLAND over which the Deceased executed by Will a general power of appointment.. .. .

(The Particulars of that part of the property in respect of which the duty is to be now paid are stated in the Third Part of the Account No. 5, and of that part of the property in respect of which the duty is not to be now paid in an "appropriate account" marked——.)

(C) See Note (C) on page 3.

N.B.—This is the "gross value" which is to be carried to para. 6 on page 1.. £ 3,000

To be signed by the persons making oath or affirmation }

Total of First and Second Parts £28,448 7

N.B.—This is the "aggregate gross value" which is to be carried to para. 7 on page 1.

## DUTY PAYABLE.

Net Capital on which duty is chargeable (see Clause 66 (3) of Form A—2)				Rate per cent.	Duty. £ s. d.
(On £25,540—12-6 Personalty	..	..	..	..	1,532 8 9
Deduct Allowance for Duty payable	..	..	..	..	1,532 8 9
Add—				..	11 6 8
Interest at £3 per cent. per annum on duty payable from day after death to date of delivery of the Affidavit, both days inclusive, <i>i.e.</i> , 90 days				..	1,543 15 5
On Value of Realty now paid*				..	120
Add—				..	..
Interest at £3 per cent. per annum on <i>whole</i> duty (or, if paid by instalments, on first instalment) from day after expiration of 12 months from the death to date of delivery of Affidavit, both days inclusive, <i>i.e.</i> , ————years and ————days				..	..
Total Duty and Interest Payable on the Free Property and Property Aggregable therewith (Part I as above)				..	1,663 15 5
" " " Property not Aggregable with the Free Property (Part II as over)				..	..
Total Duty and Interest Payable on this Affidavit				..	1,663 15 5

The foregoing details have been compared with Affidavit,

..... pro Accountant.

\* If only one yearly instalment is to be paid on this Warrant, the Value of Realty to be carried out here should be  $\frac{1}{12}$ th of the total net value. If only one half-yearly instalment is to be paid, the value should be  $\frac{1}{24}$ th of the total.

(For PART II, see over.)

Note.—Owing to exigencies of print, this Schedule of Duty payable has been brought forward a few pages It should be read immediately after page 404.

# **FIRST PART.—An Account of the debts due, and owing from the Deceased, to persons resident in the United Kingdom, or due to persons resident out of the United Kingdom, but contracted to be paid in the United Kingdom or charged on property situate within the United Kingdom.**

PAGE 5.

Where the debts on the Deceased's personal property exceed the value thereof, and the deficiency is a proper deduction for Estate Duty purposes against the Deceased's real property, deduction of such deficiency may be taken in Schedule No. 5.

SCHEDULE SHOULD BE CONTINUED ON A SEPARATE SHEET

## **NOTE.**

See Clauses 43 to 47 of the Form A—2 as to what debts may not be deducted. A STATEMENT OF ANY DEBTS PAYABLE BY LAW OUT OF THE PERSONAL PROPERTY IN ACCOUNT NO. 1, BUT WHICH CANNOT BE DEDUCTED AGAINST ESTATE DUTY, SHOULD BE ANNEXED TO THE SCHEDULE BY WAY OF RIDER.

Where a debt is claimed to be due to the husband or wife, or any other member of the Deceased's family, a full explanation should be given, and evidence of the debt should be annexed.

A mortgage debt not created by the Deceased himself but charged on real property which was acquired by the Deceased subject to the mortgage is primarily payable out of such real property and must not be deducted here.

A mortgage debt created by the Deceased himself on his real property, but which is payable by his heir or devisee under "Locke King's Act," 17 & 18 Vict. c. 113, is a debt in respect of which reimbursement may be claimed and must not be deducted here, unless such reimbursement cannot be obtained.

A debt for payment of which the Deceased was surety only must not be deducted, unless the executor has already paid it, and cannot recover it from the original debtor.

Where the debt is for "money lent" or "overdraft" to a Bank, the date of the loan and the particulars of the security, if any, given, or, if none, the facts relied on, as showing that the debt is legally recoverable, should be stated.

EXE]

## DICTIONARY OF BOOK-KEEPING

[EXE

Name and Address of Creditor.	Description of Debt. (This should include the date and short particulars of any security for the Debt.)	Amount.		
		£	s.	d.
Dr. Sands	Medical Attendance	65		
Sundry Persons	Personal Expenses	60		
Sundry Tradesmen	Household Expenses	220	14	6
		345	14	6

## SECOND PART.—An account of the funeral expenses of the Deceased.

NOTE. The cost of mourning or tombstone cannot be deducted.	A. Undertaker & Co. . .	..	..	..	..	..	42		
						£	42		
To be signed by the persons making oath or affirmation	Total of First and Second Parts						£ 387	14	6

## ACCOUNT No. 2.

PERSONAL or movable property situate abroad, which is not saleable or transferable in the United Kingdom.

NOTE.—Property saleable or transferable in the United Kingdom should be included in Account No. 1 as “Personal Property situate *in* the United Kingdom.”

Particulars and local situation of the property.		Principal Value at DATE OF DEATH.	
		£	s. d.
<i>Loan to Friedrich Braun, Hamburg</i>		£	500
Gross ..		£	500
Deduct Total of Schedule No. 2		£	20
To be signed by the persons making oath or affirmation		£	480
Net value ..		}	
N.B.—This is the amount to be carried to Summary..		}	

It should be clearly shown how the value of the property expressed in English money is arrived at.

WHERE THE SPACE IS INSUFFICIENT, THE ACCOUNT OR

### SCHEDULE No. 2.

An account of the debts due and owing from the Deceased to persons resident out of the United Kingdom, other than debts contracted to be paid in the United Kingdom or charged on property situate within the United Kingdom, which have been deducted in the above Schedule No. 1

See Clauses 43 to 47 of the Form A—2\* as to what debts may *not* be deducted, AND SEE NOTES TO SCHEDULE No. 1.

Deduction may be here claimed (a) of any duty payable in any *foreign* country by reason of the Deceased's death in respect of property situate in that *foreign* country and included in the Account No. 2, and (b) of an amount not exceeding 5 per cent. on the value of any property in the Account No. 2, representing *additional* expense incurred in administering or realising such property by reason of its being situate *out of the United Kingdom*.

Name and Address of Creditor.	Description of Debt. (This should include the date and short particulars of any security for the debt.)	Amount.	
<i>Sundry Persons</i>	<i>Estimated Cost of realising</i>	£	s. d.
		20	
To be signed by the persons making oath or affirmation		20	

PAGE 6.

### ACCOUNTS No. 3 (a) and 3 (b).

3 (a) An account of the PERSONAL property, whether in possession or reversion, other than that in the Accounts Nos. 1 and 2, of which the Deceased at the time of h— death was *competent to dispose* within the meaning of the Finance Act, 1894 [(see s. 22 (2) (a)], but did *not* dispose. *The duty on this property MUST BE PAID on the delivery of this affidavit.*

3 (b) An account of money which the Deceased had, at the time of h— death, a general power to charge on real property whether the power was exercised by h— will or not. *The duty on this property MUST BE PAID on the delivery of this affidavit.*

Short material particulars of disposition conferring the power, with date of, and names of parties to any deed, and name of any testator, and date of Probate of his will.	Particulars of Property.		Principal Value at
	A separate statement should be attached giving full particulars, as in Account No. 5 on page 7, of any Leaseholds for years.		DATE OF DEATH £ s. d.
3 (a)	Gross Value .. .. .	£	
	* Deduct debts and incumbrances upon Leaseholds.. .. .	£	

and be annexed, showing in the case of each Account, Form A—2, (c) the amount of any "Estate by itself," 2 as to aggregation.

should be attached giving full particulars as in Schedule No. 5 on page 7. N.B.—This is the amount to be carried to Summary (see note) .. .. £		
N.B.—This is the amount to be carried to Summary .. ..		

ACCOUNT No. 4.

An account of OTHER PERSONAL property passing on the Deceased's death (including Leaseholds for years in which the Deceased's interest was less than an absolute interest), *whereon the Estate Duty is ELECTED to BE paid on the delivery of this affidavit.*

Title to Property.	Particulars of Property.	Principal Value AT DATE OF DEATH.
Date and short material particulars of disposition, with date of and names of parties to any deed, and name of any testator, and date of Probate of his will. The names and addresses of the Beneficiaries should also be given, together with their relationship (a) to the Deceased and (b) to the predecessor from whom the property is derived.	A separate statement should be attached giving full particulars, as in Account No. 5 on page 7, of any Leaseholds for years.	£ s. d.
	Gross Value .. .. £ * Deduct debts and incumbrances upon Leaseholds .. .. £ * A separate statement marked Schedule No. 4 should be attached giving full particulars as in Schedule No. 5 on page 7. Net value. N.B.—This is the amount to be carried to Summary (see note) .. .. £	
To be signed by the persons } making oath or affirmation		

NOTE.—If any part of the property is not aggregable with the Deceased's free property, a separate statement (a) the amount aggregable with the free property, (b) the amount of any property which would be aggregated and other unsettled property is, by reason of its small value, an "Estate by itself" (see Clause 26 of The several amounts should be separately carried to the Summary. See Clauses 25 to 28 of the Form



An Account of REAL Property passing on the Deceased's Death, *whereon*

TITLE UNDER WHICH THE PROPERTY PASSES ON THE DEATH OF THE DECEASED.	PARTICULARS OF REAL PROPERTY							
Date and short material particulars of disposition, with date of any deed, and names of parties thereto, and name of any testator or intestate, and date of probate of his will or grant of administration.	Description of property, including situation, tenure, quantity, tenant's names, and nature of tenancy, and distinguishing between arable, meadow, pasture, orchards, gardens, woods, moors, commons, wastes, pleasure grounds, building land, etc.	Rental, if let, or gross (not rateable) value for the poor rate, if un-	Value for property tax. State the gross assessment (and not the reduced assessment for collection of Income Tax under Finance Act, 1894, s. 35).	Nature of deductions from the gross annual value. Tenant's outgoings should not be deducted unless paid by owner.	Amount of deductions.	Net annual value.	No. of Years purchase as estimated.	Estimated principal value AT DATE OF DEATH, and gross amount realised, if since sold and date of completion of sale.
		£ s. d.	£ s. d.		£ s. d.	£ s. d.		£ s. d.
First Part. — Real Property passing under the Deceased's will or intestacy, other than the property in Second Part (below) .. .. . England— Scotland and Ireland—	Freehold House		270	Repair $\frac{1}{8}$	45	225	13½	3,000
Second Part.—Land of copyhold tenure or customary freehold, passing as in First Part (above) where an admission or act by the lord of the manor is necessary to								

*Estate duty is ELECTED TO BE PAID on the delivery of this Affidavit.*

<p>purchaser from the customary tenant .. THIRD PART.—Real Property over which the Deceased ex- ecuted by will a general power of appointment, other than the property in Fourth Part (below). England— Scotland and Ireland— FOURTH PART.—Land as in Second Part (above) over which the Deceased ex- ecuted a power as in Third Part (above) .. FIFTH PART.—Real Property passing under other titles, viz.—</p>	<p>NOTE.—If any part of the property in this Account is <i>not aggregable with the Deceased's free property</i>, a separate statement should be annexed showing (a) the amount <i>aggregable with the free property</i>, (b) the amount of any property which <i>would be aggregable</i> with the free property, but is <i>not</i> because the free and other unsettled property is, by reason of its small value, an "Estate by itself" [see Clause 26 of the Form A—2], and (c) the amount of any "Estate by itself." The several amounts should be separately carried to the Summary. See Clauses 25 to 28 of the Form A—2 as to aggregation.</p>	<p>Gross value Deductions in Schedule No. 5</p>	<p>£ 3,000 1,000</p>
		<p>Net Value N.B.—This is the amount to be carried to Summary (see Note)</p>	<p>£ 2,000</p>

**OBSERVE.** As to Agricultural property, see Clauses 37, 68 and 69 of Form A—2.  
If the real property include unlet fishing or sporting rights, church patronage, timber, unlet building land, mines, or other property which has no annual value, or the annual value whereof is no criterion of the principal value, full details should be given. Where the property is licensed it should be expressly so stated, and the particulars of the lease or other lettings should be fully set out.  
Generally, as to all property, all such particulars should be furnished as are requisite to arrive at the principal value.

To be signed by the persons  
making oath or affirmation

**Note.**—For Schedule No. 5 (see page 39t).

Form No. 28. To be presented with Affidavit (Form A—7) on payment of Duty.  
ABSTRACT OF AFFIDAVIT.

PART I.—THE DECEASED'S FREE PROPERTY and PROPERTY AGGREGABLE THEREWITH.				Gross Capital.		Debts and Deductions.		Net Capital.	
				£	s. d.	£	s. d.	£	s. d.
Personal Property situate in the United Kingdom (Account No. 1 (First Part) and Schedule No. 1)				25,448	7	387	14	625,060	12
Personal Property situate abroad (Account and Schedule No. 2)				500		20		480	6
Other Personal Property, viz.—									
{									
— (Account No. 3) ..									
— (Account No. 4) ..									
— (see para. 15 of Affidavit) ..									
Total Personalty				25,948	7	407	14	625,540	12
Real Property (Account and Schedule No. 5)				3,000		1,000		2,000	
Other Real Property (see para. 15 of Affidavit)									
Totals				28,948	7	1,407	14	627,540	12
Deduct—									
Value of Interests in Expectancy on which duty is not paid				Personalty	..	..	..		
				Realty ..	..	..	..		
Value of Property referred to in para. 15 of Affidavit				Personalty	..	..	..		
				Realty ..	..	..	..		
Net Value of Aggregable Property on which Estate Duty is now to be paid								27,540	12
PART II.—PROPERTY NOT AGGREGABLE WITH THE DECEASED'S FREE PROPERTY.—See over.									

Net Value of Aggregable Property on which Estate Duty is now to be paid

PART II.—PROPERTY NOT AGGREGABLE WITH THE DECEASED'S FREE PROPERTY.—See over.

Note. —For Schedule of Duty Payable, see page 397.

Date.	Receipts.	Income.	Capital.	Bank.	Date.	Payments.	Income.	Capital.	Bank.
19..	To Balance.. ..				19..	By Estate Duty—			
Jan. 1	" Leasehold Property—			265	Mar. 31	On Personalty—		1,532	1,663 15 5
" "	Rent for Qr. to 25 Dec.—			75		6% £2,5540/12/6		8 9	
	Capital .. .75/0/0					Interest on above			
	less tax at 1/2					90 days at 3% per. ann..	11 6 8		
	6 Apr. -25 Dec. -12/13/2		62 6 10			On Realty—			
	Income .. ..					6% £2,000	120		
	add tax above .12/13/2					By Debts due at Death ..		345 14 6	345 14 6
" 5	To 2½ % Consols—	12 13 2			Apr. 21	" Funeral Expenses	42		42
	Dividend on £7,000 for				" "	" Son on a/c ..	50		50
	Qr. to date .43/15/0								
	less tax at 1/2 . 2/11/0								
	Capital 87 days .. ..		39 5 8	41 4	" 22				
" 12	Income 5 days .. ..	1 18 4							
	To Loan on Mortgage—								
	½ yrs. Int. less tax to								
	31 Dec. .. ..								
Mar. 25	To Leasehold Property—		47 1 8	47 1 8					
	Rent for Qr. to date 75/0/0								
	less tax for year :								
	6 Apr.-5 Apr.								
	at 1/2 on £300 .17/10/0			57 10					
	Capital 6 days . 4/18/7								
	less tax from								
	26 Dec.-31 Dec. 5/9								
	Income 84 days . 70/1/5		4 12 10						
	add tax above . 5/9								
	less tax for year								
	70/7/2								
	17/10/0	52 17 2							
" 31	To 4% Columbia Bonds—								
	Dividend on £2,000 for								
	Qr. to date . 20/0/0								
	less tax at 1/2 . 1/3/4								
	Income 84 days . 70/1/5		2,400	18 16 8					
	add tax above . 5/9		450	2,400 450					
	less tax for year								
	70/7/2								
	17/10/0								
April 1	To Life Policy .. ..								
" 4	To Loan to F. Braun								
	Carried forward ..	86 1 5 4	3,268 7	3,354 12 4		Carried forward ..	61 6 8	2,040 3 3	2,101 9 11

Dr.

## CASH BOOK (continued).

Cr.

Date.	Receipts.	Income.	Capital.	Bank.	Date.	Payments.	Income.	Capital.	Bank.
19..	Brought forward ..	86	5	4	3,268	7	19..	6	8
April 5	To 2½% Consols— Dividend on £7,000 for Qr. to date .. 43/15/0 less tax at 1/2 .. 2/11/0	41	4				61	6	3
May 15	To Ships & Shares of Ships Freehold House ..			41	4			2,040	3
" 31	" House Furniture, etc. ..			250					
" "	" " Leasehold Property— Rent for Qr. to date ..			3,200					
June 24	To Bank Deposit—	75		2,050					
" 30	Int. on £630 for ½ yr. at 4% per ann. ..	12	12				19	12	4
" "	To Gold Mine Shares— Dividend on £100 for ½ yr. to date, 25% free of tax.	25						1,000	
" "	To 4% Columbia Bonds— Dividend on £2,000 for Qr. to date .. 20/0/0 less tax at 1/2 .. 1/3/4	18	16	8			50		50
" "	To Goodwill of Business— Int. at 5% p.a. for 6 mos. 31/ 5/0 less tax at 1/2 1/16/5						28	5	1,228
" "	To Shares in Business of X. Y. Z. & Co. 6,215/0/0 Int. at 5% p.a. for 6 mos. 155/7/6 less tax at 1/2 9/1/3	29	8	7	1,250		150		150
" "	To Loan on Mortgage £2000 ½ yrs. Int. at 5% .. 50/0/0 less tax at 1/2 .. 2/18/4	146	6	3	6,215		172	10	6
" "	To Balance b/d	47	1	8			481	14	6
July 1		481	14	6	16,233	7	16,715	1	6
		172	0	6			16,715	1	6

Cr.

2½ PER CENT. CONSOLS.

	Nominal.	Income.	Capital.		Nominal.	Income.	Capital.
19.. Dec. 31	To Estate A/c— £7,000 at 7½ ex div. .. Dividend thereon to date of death (6 Oct. to 31 Dec.) 87 days .. .. 41/14/3 less tax at 1/2 .. 2/8/7		7,000	19.. Jan. 5	By Cash— Dividend on £7,000 for Qr. to date .. 43/15/0 less tax at 1/2 .. 2/11/0		
19.. June 30	To Income A/c (transfer) .. .. }		39 5 8		Capital, 87 days .. .. Income, 5 days .. ..	1 18 4	39 5 8
July 1	To Balance b/d .. ..	43 2 4		April 5	By Cash— Dividend on £7,000 for Qr. to date .. ..	41 4	5,530
			7,000	June 30	By Balance c/d .. ..	7,000	7,000
			5,530			43 2 4	5,569 5 8

Dr.

4 % COLUMBIA BONDS.

Cr.

	Nominal.	Income.	Capital.		Nominal.	Income.	Capital.
19.. Dec. 31	To Estate A/c— £2,000 at 95½ .. ..		2,000	19.. Mar. 31	By Cash— Dividend on £2,000 for Qr. to date .. 20/0/0 less tax at 1/2 .. 1/3/4		
19.. June 30	To Income A/c (transfer) .. .. }				By Cash— Dividend for Qr. to date as above .. ..	18 16 8	1,905
July 1	To Balance b/d .. ..	37 13 4		June 30	By Balance c/d .. ..	18 16 8	1,905
			2,000	" "		37 13 4	2,000
			1,905				2,000



SUCCESS GOLD MINES, LTD.										Cr.			
Dr.		Nominal.		Income.		Capital.		Nominal.		Income.		Capital.	
19..	To Estate A/c—												
Dec. 31	100 £1 shares		100			1,000					25		1,000
	fully paid at £10	..							100				
19..	To Income A/c (transfer)	..			25						25		1,000
June 30			100		25	1,000			100				
July 1	To Balance b/d	..	100			1,000							

## GOODWILL OF BUSINESS.

Dr.	Nominal.	Income.	Capital.		Nominal.	Income.	Capital.
19.. Dec. 31	To Estate A/c .. ..		1,250	19.. June 30	By Cash .. ..		
19.. June 30	To Income A/c (transfer) ..	29 8 7			+ Interest at 5% p.a. for half year to date .. ..		
					less tax at 1/2 .. 1/16/5		
					29/8/7		
		29 8 7	1,250		1279/8/7	29 8 7	1,250

## SHARE IN BUSINESS OF X. Y. Z. &amp; CO.

Dr.	Nominal.	Income.	Capital.		Nominal.	Income.	Capital.
19.. Dec. 31	To Estate A/c .. ..		6,215	19.. June 30	By Cash .. ..		
19.. June 30	To Income A/c (transfer) ..	146 6 3			+ Interest for half year to date at 5% per ann. .. 155/7/6		
					less tax at 1/2 .. 9/1/3		
					146/6/3	146 6 3	6,215
		146 6 3	6,215			146 6 3	6,215

Dr.

## LEASEHOLD PROPERTY.

Cr.

		Income.	Capital.			Income.	Capital.	
19.. Dec. 31	To Estate A/c .. .. Rent for Dec. Qr. .. 75 0 0 less tax at 1/2 on £300 (6 Apr.— 25 Dec.) . 12 13 2		3,000	19.. 1 Jan. 1	By Cash— Rent for Dec. Qr. less tax <i>per contra</i> ..	12 13 2	62 6 10	
	Rent to date of death, 6 days .. 4 18 7 less tax from (26 Dec.— 31 Dec.) . 5 9		62 6 10	Mar. 25	Cash— Rent for Qr. 75 0 0 less tax at 1/2 on £300 17 10 0			
					<u>£57 10 0</u>			
					Capital (6 days) Income, (84 days) ..	52 17 2	4 12 10	
19.. June 30	To Income A/c (transfer) .. } 140 10 4	140 10 4	4 12 10	June 24	By Cash— Rent for Qr... ..	75		
				„ 30	By Balance c/d ..		3,000	
19 July 1	To Balance b/d ..	140 10 4	3,066 19 8			140 10 4	3,066 19 8	
			3,000					

Dr.

## MORTGAGE ON LEASEHOLD PROPERTY.

Cr.

	Income.	Capital.		Income.	Capital.
19.. June 30			19.. Dec. 31		
To Cash—			By Estate A/c ..	..	
Loan   £1,200 0 0			"   Income A/c	28 5	1,200
Interest at 5% for 6 mos. 30/0/0 less tax at 1/2 1/15/0	28 5	1,200	"   Income A/c (transfer)		
	28 5	1,200		28 5	1,200

Dr.

## FREEHOLD HOUSE.

Cr.

	Income.	Capital.		Income.	Capital.
19.. Dec. 31			19.. May 31		
To Estate A/c			By Cash ..	..	3,200
13½ years' purchase of net annual value, £225 .. ..		3,000			
To Estate A/c (profit on sale)		200			
		3,200			3,200

## MORTGAGE ON FREEHOLD HOUSE.

Dr.

Cr.

		Income.	Capital.		Income.	Capital.
19..	To Cash—			19..		
May 31	Loan .. £1,000/0/0			Dec. 31	By Estate A/c ..	1,000
	Int. at 5% for 5 mos. 20/16/8			19..	Income A/c (transfer)	
	less tax at 1/2 1/4 4 19/12/4			June 30		
	<u>1,019/12/4</u>	19 12 4	1,000			
		19 12 4	1,000			

Dr.

Cr.

## CASH ON DEPOSIT.

		Income.	Capital.		Income.	Capital.
19..	To Estate A/c ..		630	19..		
Dec. 31				June 30	By Cash	
19..	To Income A/c (transfer) ..	12 12			Interest for Half Year at 4% ..	
June 30		12 12		30	Balance c/d ..	630
		12 12	630			
July 1	To Balance b/d ..		630			



LIFE POLICY.					Dr.	Cr.
19..	To Estate A/c—			19..	By Cash—	
Dec. 31	Policy ..	4,000	April 1	Policy and Bonuses ..	4,400	
	Bonuses accrued ..	400		less Loan ..	2,000	2,400
			June 30	By Loan on Life Policy A/c		2,000
				(transfer) ..		4,400

LOAN ON LIFE POLICY.					Dr.	Cr.
19..	To Life Policy A/c (transfer)	2,000	19..	By Estate A/c ..		2,000
June 30			Dec. 31			



HOUSEHOLD FURNITURE AND EFFECTS.						Cr.
Dr.						
19..	To Estate A/c	..	..	19..	By Cash	..
Dec. 31				May 31		2,050
19..	To Estate A/c (transfer of profit)..	..	50			
June 30						2,050

SHIPS AND SHARES OF SHIPS.						Cr.
Dr.						
19..	To Estate A/c	..	..	19..	By Cash	..
Dec. 31			300	May 15	" Estate A/c	250
				June 30	(loss on sale transferred)	50
						300

DEBTS DUE AT DEATH.						Cr.
Dr.						
19..	To Cash	..	..	19..	By Estate A/c	..
Apr. 21				Dec. 31		345 14 6



Dr.

## LOAN TO F. BRAUN, HAMBURG.

Cr.

19.. Dec. 31	To Estate A/c .. ..	500	19.. Dec. 31	By Estate A/c (estimated expense of realising) ..	20
			19.. Apr. 4 June 30	Cash .. .. " Estate A/c (transfer of loss) ..	450 30
		500			500

Dr.

## INCOME ACCOUNT.

Cr.

19.. June 30	To Estate Duty Interest .. ..	11 6 8	19.. June 30	By Leasehold Property ..	140 10 4
"	" Mortgage on Freehold .. ..	20 16 8	"	" Consols .. ..	43 2 4
"	less tax .. ..	1 4 4	"	" Columbia Bonds .. ..	37 13 4
"	Mortgage on Leasehold 30 0 0	19 12 4	"	" Gold Mine Shares .. ..	25
"	less tax .. ..	1 15 0	"	" Bank Deposit .. ..	12 12
"	Income Tax A/c—	28 5	"	" Goodwill .. ..	29 8 7
"	Bank Deposit Int. 0 14 8		"	" Share of Business of X. Y. Z. & Co. ..	146 6 3
"	Free Mortgage Int. 1 4 4		"	" Loan on Mortgage ..	47 1 8
"	Lease Mortgage Int. 1 15 0				
"	Balance transferred to Son's A/c	314 418 16 6			
		481 14 6			481 14 6

Note.—In Executorship Accounts, no credit is taken for any income until it is actually received, even though at balancing time it may have accrued due.

INCOME TAX COMMISSIONERS.					Cr.
Dr.					
			19.. June 30	By Income A/c .. ..	3 14

SON'S ACCOUNT.					Cr.
Dr.					
19.. Apr. 22	To Cash ..	50	19.. June 30	By Income A/c (transfer) ..	418 16 6
May 31	" ..	50			
June 30	" ..	150			
" "	" Balance c/d ..	168 16 6			
		418 16 6	July 1	By Balance b/d .. ..	418 16 6
					168 16 6

Dr.		ESTATE ACCOUNT.				Cr.	
19..	To Sundry Liabilities (detailed as			19..	By Sundry Assets (detailed as		
Dec. 31	per Estate Duty A/c)	4,607 14 6	Dec. 31	Dec. 31	per Estate Duty A/c)	32,148 7	7
"	" Balance c/d .. ..	27,540 12 6					
		32,148 7				32,148 7	
19..	To Testamentary Expenses	1,652 8 9	19..	By Balance b/d .. ..		27,540 12 6	6
June 30			Dec. 31				
"	Ships, etc. (loss) .. ..	50	19..	" House Furniture (profit)		50	
"	Loan to F. Braun (loss)	30	June 30				
"	Balance c/d .. ..	26,058 3 9	"	" Freehold House (profit)		200	
		27,790 12 6				27,790 12 6	6
			19..	By Balance b/d .. ..		26,058 3 9	9
			July 1				

Note 1.—The Estate Account is also called the Estate Capital Account, Principal Account, Corpus Account, etc.

Note 2.—The opening entries are sometimes journalised as in the case of ordinary assets and liabilities, though many accountants condemn the use of the Journal, and advocate entering full particulars in the Ledger Accounts themselves.

## BALANCE SHEET AS AT 30TH JUNE, 19...

<i>Liabilities.</i>		<i>Assets.</i>	
Estate Capital A/c ..	..	Cash at Bank..	..
Income Tax Commissioners ..	..	Cash on Deposit at 4 %	..
Son's A/c ..	£418 16 6	£7,000 2½ % Consols at 79	..
less Cash on a/c ..	250 0 0	£2,000 4 % Columbia Bonds at 95½	..
		100 £1 Gold Mine Shares at £10	..
		Leasehold Property ..	3,000
		Loan on Mortgage at 5 %	2,000
			..
			12,165 14 3
			630
			5,530
			1,905
			1,000
			3,000
			2,000
			26,230 14 3



The student should also refer to APPORTIONMENT, HOTCHPOT, LEGACY, INVESTMENT and RESIDUARY ACCOUNT for other examples.

**EXEMPTIONS FROM INCOME TAX.**—(See INCOME TAX.)

**EXPENDITURE, CAPITAL—EXPENDITURE, REVENUE**—(See CAPITAL AND REVENUE, also DOUBLE ACCOUNT SYSTEM.)

**EXPENSES, DIRECT—EXPENSES, ESTABLISHMENT—EXPENSES, INDIRECT.**—(See COST ACCOUNTS.)

**EXPENSES OF ISSUE OF DEBENTURES.**—(See DEBENTURE DISCOUNT.)

**EXTENDING PROTEST.**—(See BILL OF EXCHANGE.)

**EXTRAORDINARY RESOLUTION.**—(See COMPANY.)

**FACE VALUE.**—The nominal value of shares, bonds, etc., that is, the value printed upon the face of them, as opposed to their real or market value, which may be higher or lower.

**FACTORY COST—FACTORY ONCOST.**—(See COST ACCOUNTS.)

**FARMERS' TAX.**—(See INCOME TAX SCHEDULE B.)

**F.A.S.**—An abbreviation for “free alongside ship.” It denotes that the price quoted includes delivery of goods alongside ship, but not the expense of putting on board. (See F.O.B.)

**FICTITIOUS ASSETS.**—(See ASSETS.)

**FINISHED GOODS.**—Goods or articles completely manufactured and ready for sale, as opposed to those in different stages of manufacture, and known as “partly manufactured goods.”

**FIRE ACCOUNT.**—A separate account is often opened for damage to, or loss of, goods or property by fire. A Journal entry is made thus—

Fire Account	<i>Dr.</i>
To Goods damaged by Fire	<i>Cr.</i>
,, Fixtures and Fittings	<i>Cr.</i>

If uninsured, the whole amount is written off to Profit and Loss ; but if covered by insurance, the Compensation received from the Insurance Company will be credited to the Fire Account, and any balance of this account will then be transferred to Profit and Loss.

**FIRE INSURANCE.**—An annual payment, called a premium, to an Insurance Company for indemnity against loss

of goods or property by fire. The premium is posted to the debit of a Fire Insurance Account, which is closed by transfer to Profit and Loss after carrying down any portion of the premium that may be unexpired at balancing time. The following is an illustration—

Dr.		FIRE INSURANCE.				Cr.	
19..							
Jan. 1	To Balance b/f .. ..	37	10	19..	Dec. 31	By Amt. Unexpired c/d.	37 10
July 1	„ Cash (1 yr.'s premium)	75		„ „	„ Profit and Loss ..	75	
		112	10			112	10
19..							
Jan. 1	To Balance b/d .. ..	37	10				

**FIRE INSURANCE COMPANY'S ACCOUNTS.**—(See INSURANCE.)

**FIRM.**—A collective name for a partnership.

**FIRST AND FINAL DIVIDEND.**—(See DIVIDEND.)

**FIRST COST.**—Same as Prime Cost. (See COST ACCOUNTS.)

**FIRST OF EXCHANGE.**—The first of the three vias or set of foreign bills.

**FIXED ASSETS.**—(See ASSETS.)

**FIXED CAPITAL ACCOUNTS.**—(See PARTNERSHIP ACCOUNTS.)

**FIXED CHARGES.**—(See COST ACCOUNTS.)

**FIXED INSTALMENT METHOD.**—(See DEPRECIATION.)

**FIXED RENT.**—Same as Minimum Rent. (See ROYALTIES.)

**FIXTURES AND FITTINGS.**—A separate account is opened for these items. It often includes Office Furniture, and is then termed Furniture, Fixtures, and Fittings. Any additions are charged to the same account ; but expenditure on repairs and renewals is charged to Profit and Loss. Depreciation is written off by means of a fixed rate per cent. on the annual diminishing balances. For the treatment of additions, see under DEPRECIATION.

**FLAT COST.**—(See COST ACCOUNTS.)

**FLOATING ASSETS.**—(See ASSETS.)

**FLOATING ASSETS AND LIABILITIES.**—(See DOUBLE ACCOUNT SYSTEM.)

**FLOATING CAPITAL.**—(See CAPITAL.)

**FLOATING CHARGE.**—A term used in connection with the issue of Debentures. (See COMPANY.)

**FLUCTUATION.**—(See DEPRECIATION.)

**F.O.B.**—An abbreviation for “free on board.” It denotes that the price quoted includes delivery of goods on board ship. (See F.A.S.)

**FOLIO.**—Two pages of a book bearing the same number, as, for instance, in the Cash Book. In book-keeping it is now used to denote the page number of the books from which and to which an entry is being posted or transferred.

**FOLIO COLUMN.**—An extra column ruled specially in all books of account, generally in front of the money columns, for the insertion of page numbers or folios when posting. Such folios are inserted in order to facilitate subsequent reference if necessary.

**FOOTAGE.**—(See ROYALTY.)

**F.O.R.**—An abbreviation for “free on rail.” It denotes that the price quoted includes delivery of goods to railway company.

**FOREIGN BILLS.**—(See BILL OF EXCHANGE.)

**FOREIGN BRANCHES.**—(See BRANCH ACCOUNTS.)

**FOREIGN CURRENCIES, CONVERSION OF.**—(See BRANCH ACCOUNTS.)

**FOREIGN CURRENCY, ACCOUNTS IN.**—Where the business carried on comprises foreign transactions, this will necessitate the keeping of accounts in currency as well as sterling. The Ledger should be ruled with double columns, and any balance between the two sides of the account after payment has been made should be transferred to a “Difference in Exchange Account.”

**Example 1.**—Dupré Frères, of Paris, remitted to Smith & Sons, of London, a cheque for 2,000 francs in full settlement of an account of £80. Smith & Sons’ bankers credited them at the exchange of 25·25. Show the entries in Smith & Sons’ Cash Book and Ledger.

Clearing of decimals, we have

2525)200,000 (£79 : 4 : 2 nearly

as the proceeds of the remittance.

Dr.		CASH BOOK.										Cr.	
		Fr.	C.	£	s.	d.			Fr.	C.	£	s.	d.
To Dupré Frères ..		2,000	00	79	4	2							

LEDGER.

DUPRÉ FRÈRES.

Dr.					DUPRÉ FRÈRES.					Cr.				

27. A forfeited Share may be sold or otherwise disposed of on such terms and in such manner as the directors think fit, and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the directors think fit.

28. A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares, but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were presently payable by him to the Company in respect of the Shares, but his liability shall cease if and when the Company receive payment in full of the nominal amount of the Shares.

30. The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a Share, becomes payable at a fixed time, whether on account of the amount of the Share, or by way of premium, as if the same has been payable by virtue of a Call duly made and notified.

Although the ex-shareholder is, strictly speaking, still liable after forfeiture for any sums owing, the amount is to all intents and purposes a bad debt, and is therefore written off.

**Example.**—A Limited Company has an Issued Capital of 100,000 £1 shares, 15s. per share called up. The directors resolve that 200 shares, on which the first and second Calls of 5s. per share had not been paid, should be forfeited.

Make the necessary Journal entries and show the effect on the Company's Balance Sheet.

## First Way—

## JOURNAL.

Dr.

Cr.

Share Capital A/c ( <i>full amount called up</i> ) .. .. .	150				
To Forfeited Shares A/c ( <i>amount paid</i> ) .. .. .				50	
„ First Call A/c ( <i>amount due</i> ) ..				50	
„ Second Call A/c ( <i>amount due</i> )				50	
200 shares forfeited for non-payment of Calls as per Minute No. ....d/.....					

## Second Way— JOURNAL.

Dr.

Cr.

Share Capital A/c .. .. .	150				
To Forfeited Shares A/c .. ..				150	
200 £1 shares, 15/- per share called up, forfeited.					
Forfeited Shares A/c .. ..	100				
To First Call A/c .. .. .				50	
„ Second Call A/c .. .. .				50	
Amount of unpaid Calls written back.					

## Both Ways—

## BALANCE SHEET.

<i>Capital and Liabilities.</i>				
Issued Capital—				
100,000 shares of £1 each, 15/- called up	75,000			
<i>less</i> 200     "     "     "     forfeited	150			
99,800			74,850	
Forfeited Shares A/c    ..    ..    ..			50	

If the *Nominal* Capital has been entered in the books, the following Journal entry will be required.

## JOURNAL.

Dr.

Cr.

Unallotted Shares A/c    ..    ..	200			
To Uncalled Capital A/c    ..    ..			50	
" Forfeited Shares A/c..    ..			50	
" First Call A/c..    ..    ..			50	
" Second Call A/c    ..    ..			50	
200 Shares, Nos..... to .....				
forfeited for non-payment of Calls				
as per Minute of Directors dated ..				

In the Share Ledger a note would be made *in red ink* in the Shareholder's Account stating that the shares were forfeited, and giving date and number of the directors' resolution.

**FORFEITED SHARES RE-ISSUED.**—The directors of a Limited Company have power to re-issue forfeited shares at par, at a premium, or at a discount not exceeding the amount already paid up on them. Any balance left in the Forfeited Shares Account when the shares have been re-issued will be transferred to the Reserve Fund. Unless the Articles forbid it, the amount may even be taken to Profit and Loss as a profit, though such a course cannot be recommended.

**Example.**—The directors resolve that the above forfeited shares, namely, 200 shares of £1 each, shall be issued to A B, credited with 15s. per share paid up, for £125. Show the entries in the Company's books.



## First Way—

JOURNAL.		Dr.	Cr.
A. B. ( <i>personal a/c in General Ledger</i> )		125	
Forfeited Shares A/c .. ..	25		
To Share Capital A/c .. ..			150
Re-issue of 200 £1 shares, credited with 15/- per share paid up, for £125, as per Minute No..... dated.....			

Dr.	CASH BOOK.		Cr.
To A. B. .. ..	125		

## Second Way—

JOURNAL.		Dr.	Cr.
Forfeited Shares Re-issued A/c ..	150		
To Share Capital .. ..			150
Forfeited Shares A/c .. ..	25		
To Forfeited Shares Re-issued A/c .. ..			25

Dr.	CASH BOOK.		Cr.
To Forfeited Shares Re-issued A/c ..	125		

Note.—As £150 of Capital ( $\frac{3}{4}$  of £200) has been issued for £125, the balance of £25 must be made good from the Forfeited Shares A/c.

**FORGED BILL or CHEQUE—FORGED INDORSEMENT.**  
—(See BILL OF EXCHANGE and CHEQUE.)

**FORMATION EXPENSES.**—(See PRELIMINARY EXPENSES.)

**FOUNDERS' SHARES.**—(See COMPANY.)

**FRAUDULENT PREFERENCE.**—“Every conveyance or transfer of property, or charge thereon made, every payment made or obligation incurred, and every judicial proceeding taken or suffered, by any person unable to pay his debts as

they become due, from his own money in favour of any creditor or any person in trust for any creditor with a view of giving such creditor a preference over the other creditors, shall, if the person making, taking, paying, or suffering the same is adjudged a bankrupt on a bankruptcy petition presented within three months after the date of the making, taking, paying, or suffering the same, be deemed fraudulent and void as against the trustee in the bankruptcy." Such a preference constitutes an act of bankruptcy.

**FREE OF TAX.**—(See **DIVIDEND.**)

**FREEHOLD PROPERTY.**—Land which is the absolute property of the holder, and of which he can dispose as he chooses.

**FREE RENT.**—(See **QUIT RENT.**)

**FREIGHT.**—The charge made for conveyance of goods *by water*. Two accounts are generally kept for such charges, though sometimes the latter are merged in the Carriage Accounts.

**Freight Inwards Account**, or freight on goods purchased. This account is closed at balancing time by transfer to Trading Account.

**Freight Outwards Account**, or freight on goods sold. This account is closed at balancing time by transfer to Profit and Loss.

**FUEL.**—Coal, Coke, Wood, etc., used for manufacturing purposes. (See **COAL AND COKE ACCOUNT.**)

**FULLY SECURED CREDITORS.**—(See **STATEMENT OF AFFAIRS.**)

**FUNDED DEBT.**—(See **NATIONAL DEBT.**)

**FUNERAL EXPENSES.**—In Executorship book-keeping a separate account is opened for these. Reasonable funeral expenses, which must not include cost of tombstone or mourning, or transporting body from abroad, are allowed as a deduction from the gross value of the *corpus* when paying Estate Duty.

**FURNACE ACCOUNT.**—(See **MANUFACTURING ACCOUNT.**)

**FURNITURE, FIXTURES, AND FITTINGS** — (See **FIXTURES AND FITTINGS.**)

**GAIN.**—(See **PROFIT.**)

**GARNER v. MURRAY.**—(See **PARTNERSHIP ACCOUNTS.**)

**GAS COMPANY'S ACCOUNTS.**—These are kept on the **DOUBLE ACCOUNT SYSTEM**, to which the student should refer.

The following are the prescribed forms—

*Form of Annual Accounts.*  
The.....Gas Company  
Year ended 31st December, 19...

A.—STATEMENT OF SHARE CAPITAL,  
On the 31st December, 19...

1. Description of Capital.	2. Maximum Dividend authorised.	3. Number of Shares issued.	4. Nominal Amount of Share.	5. Called up per Share.	6. Total paid up.	7. Amount issued but not paid up.	8. Remaining to be issued.	9. Total Amounts authorised.

B.—STATEMENT OF LOAN CAPITAL.  
On the 31st December, 19...

1. Description of Loan (Mortgage, Bond, Debenture Stock, &c.).	2. Rate per Cent. of Interest.	3. Total Amounts borrowed at 31st December, 19...	4. Remaining to be borrowed.	5. Total Amounts authorised.

Total share capital paid up (See A.)	..	..	..	..	..	..	..	..
" loan capital borrowed (See B.)	..	..	..	..	..	..	..	..
Total capital received	..	..	..	..	..	..	..	..

## C.—CAPITAL ACCOUNT,

For the year ended 31st December, 19...

Dr.

Cr.

—	Expenditure to 31st December, 19...	Expended this Year,	Total to 31st December, 19...	—	Certified Receipts, 31st December, 19...	Received during Year,	Total Receipts to 31st December, 19...
	£ s. d.	£ s. d.			£ s. d.	£ s. d.	£ s. d.
1. To Expenditure to 31st Dec., 19....							
<i>Since that Date.</i>							
2. To Lands Acquired, including law charges				1. By Ordinary Shares of £.... each ..			
3. " New Buildings, Manufacturing Plants, Machines, Storage Works, and other structures connected with manufacture				2. " ditto of £.... each ..			
4. " New Mains and Service Pipes (not being in place of old ones), including laying same, paving, and other works connected with distribution				3. " Preference Shares of £..... each ..			
5. " New Meters (not in place of old ones), including fixing				4. " Debenture Stock ..			
6. " Cost of promoting Special Act				5. " Mortgages and Bonds ..			
6. " Special Items (if any)				6. " Amount received in anticipation of Calls ..			
Total expenditure	.. ..	.. ..	.. ..	Total .. ..	.. ..	.. ..	.. ..
To balance of Capital Account	.. ..	.. ..	.. ..				
			£				



E.—PROFIT AND LOSS ACCOUNT (NET REVENUE),  
For the year ended 31st December, 19...

Dr.

Cr.

	£	s.	d.		£	s.	d.
1. To Amount carried to Reserved Fund Account, F. (if any), from profits of 19..	..	..	..	1. By Balance of net profit brought from last account (31st December, 19..)	..	..	..
2. " Interest on temporary loans, and moneys received in anticipation of calls ..	..	..	..	2. " Amount drawn from reserved fund (if any)..	..	..	..
3. " Ditto on mortgages and bonds accrued to 31st Dec., 19..	..	..	..	Less dividend paid for the half-year ended 31st December, 19..	..	..	..
5. " Ditto on debenture stock to ditto ..	..	..	..	3. Balance brought from Revenue Account, D., being profit for year to December, 19..	..	..	..
5. " Half-year's dividend on 1st preferential to 30th June, 19..	..	..	..	4. Interest on moneys deposited ..	..	..	..
6. " Ditto, and preferential to ditto ..	..	..	..				
7. " Ditto on ordinary shares at.....per cent. ..							
" Balance of net profit to be carried to next account subject to half-year's dividends to 31st December, 19..	..	..	..				
	£				£		

F.—RESERVED FUND ACCOUNT

For the year ended 31st December, 19...

Dr.

Cr.

	£	s.	d.		£	s.	d.
1. Amount (if any) carried to Profit and Loss Account (E.) to make up deficiencies of dividends to 31st December, 19 ..	..	..	..	1. By Balance brought from last account ..	..	..	..
2. Amount paid for extraordinary claim or demand (if any) ..	..	..	..	2. " Balance brought from Profit and Loss Account (E.) ..	..	..	..
3. Amount of balance to be carried to next account ..	..	..	..	3. " Interest on amount invested ..	..	..	..
	£				£		

Like accounts must be given for depreciation fund for works on leaseholds, if any.



G.—STATEMENT OF COALS,  
During the year ended 31st December, 19...

Description of Coal.	In Store, 31st Dec., 19...	Received during Year.	Carbonised or used during Year.	In Store, 31st Dec., 19...
	Tons.	Tons.	Tons.	Tons.
Common .. .. .	..	..	..	..
Cannel .. .. .	..	..	..	..

H.—STATEMENT OF RESIDUAL PRODUCTS,  
For the year ended 31st December, 19...

Description of Residual.	In Store, 31st Dec., 19...	Made during Year. Estimated.	Used in Manu- facture during Year Estimated.	Sold during Year.	In Store, 31st Dec., 19... Estimated.
Coke—Common, chaldrons of 36 bushels ..					
Cannel .. .. .	..				
Breeze .. .. .	..				
Tar, gallons .. .. .	..				
Ammoniacal liquor, butts of 108 gallons ..	..				

## I.—GENERAL BALANCE SHEET,

On 31st December, 19...

Dr.

Cr.

	£	s.	d.		£	s.	d.
1. To CAPITAL ACCOUNT—				1. By Cash at Bankers ..	..	..	..
Balance at credit thereof (Account C.)	..	..	..	2. " on Deposit or at Interest ..	..	..	..
2. " PROFIT AND LOSS ACCOUNT—				3. " Coals for Stock on hand, 31st December, 19..	..	..	..
Balance at credit thereof (Account E.)	..	..	..	4. " Coke and Breeze ..	..	..	..
3. " RESERVED FUND—				5. " Tar and other Products ..	..	..	..
Balance at credit thereof (Account F.)	..	..	..	6. " Sundry Stores ..	..	..	..
4. " DEPRECIATION FUND (for works on leasehold lands)—							
Balance at credit thereof (Account F <sub>2</sub> )	..	..	..	7. " Gas and Meter Rental; balance of this account due			
5. " Unpaid Dividends ..	..	..	..	to the company on 31st December, 19.., less deposits			
6. " Interest accrued and unpaid on Mortgages, Bonds, and				and prepayments ..	..	..	..
Debenture Stock, and other Loans, to 31st Dec., 19..				8. " Coke and other Residual ..	..	..	..
7. " Sundry Tradesmen and others, for amount due for coals,				9. " Sundry Accounts ..	..	..	..
stores, &c., to 31st Dec., 19..	..	..	..	" Special Items (if any), including Investments ..	..	..	..
8. " WAGES AND CONTINGENCIES—							
Amount due to 31st December, 19....	..	..	..				
" Other Items (if any) ..	..	..	..				

Note 1.—The Gas Works Clauses Act, 1847, limits the rate of dividend payable by Gas Companies to 10 per cent., prescribes a Reserve Fund up to 1/10th of the Nominal Capital, and requires a copy of the annual accounts to be sent to the Clerk of the Peace for the county in which the Gas Works are situated.

Note 2.—The Companies Clauses (Consolidation) Act, 1845, provides for the formation of Insurance and Reserve Funds, and introduces a sliding scale under which shareholders become entitled to larger dividends, whenever the price of gas is reduced below the standard price.

**GAS AND ELECTRICITY.**—This represents motive power, and is therefore charged to Manufacturing or Trading Account.

**GAS AND ELECTRIC LIGHT—GAS AND WATER.**—The charges for Lighting and for Water should be subdivided, the works portion being charged to Manufacturing or Trading Account, and the office portion to the Profit and Loss Account. In examination work, where no distinction is made, such items are charged to Profit and Loss. Where, however, they are merged with the Coal and Coke, as, for instance, "Coal, Coke, Gas, and Water," such an item would be taken to Trading Account as a manufacturing charge.

**GAZETTE.**—The *London Gazette* is the official newspaper of the Crown, and contains all the Government notices. Bankruptcy proceedings, partnership dissolutions, bills of sale, deeds of assignment, etc., are also published in it.

**GENERAL ACCEPTANCE.**—(See BILL OF EXCHANGE.)

**GENERAL BALANCE SHEET.**—(See DOUBLE ACCOUNT SYSTEM.)

**GENERAL CHARGES.**—(See TRADE EXPENSES.)

**GENERAL CROSSING.**—(See BILL OF EXCHANGE.)

**GENERAL EXPENSES.**—(See TRADE EXPENSES.)

**GENERAL LEDGER.**—(See LEDGER.)

**GENERAL LEDGER ADJUSTMENT ACCOUNT.**—(See ADJUSTMENT ACCOUNT AND SELF-BALANCING LEDGERS.)

**GENERAL LIEN.**—(See LIEN.)

**GENERAL MEETING.**—(See COMPANY.)

**GENERAL ONCOST.**—(See COST ACCOUNTS.)

**GILT-EDGED SECURITIES.**—Securities of the highest class, regarded as absolutely safe, and on which the interest is paid regularly, *e.g.*, Consols.

**GOING CONCERN.**—A business in regular working order capable of changing hands without interrupting or suspending work.

**GOLDEN RULES.**—(See JOURNAL.)

**GOODS.**—Merchandise of any description.

**GOODS ACCOUNT.**—An account used in elementary book-keeping to record the stock at start, the subsequent purchases and sales of goods, and also any returns. At balancing time, the stock on hand is written in on the credit side, and the balance of the account then represents *gross* profit (or loss). In actual business it is now being superseded

by the Trading Account, which is really only a more elaborate form of Goods Account. It is, however, much clearer, and yields much more information. The contrast between the two may be seen from the following—

<i>Dr.</i>		GOODS ACCOUNT.				<i>Cr.</i>	
To Stock .. ..	500			By Sales Book .. ..	3,500		
„ Purchases Book ..	2,300			„ Cash Sales .. ..	100		
„ Returns Book ..	420			„ Returns Book .. ..	75		
„ Gross Profit ..	1,255			„ Stock c/d .. ..	800		
	4,475				4,475		
To Balance (Stock) b/d ..	800						

<i>Dr.</i>		TRADING ACCOUNT.				<i>Cr.</i>	
To Stock at start ..	500			By Sales .. ..	3,600		
„ Purchases .. 2,300				less Returns .. ..	420		
less Returns .. 75				„ Stock at finish ..		3,180	
„ Gross Profit ..	2,225					800	
	1,255						
	3,980					3,980	

**GOODS ON APPRO.**—(See APPRO.)

**GOODS ON SALE OR RETURN.**—(See SALE OR RETURN.)

**GOODWILL.**—This term has received various legal definitions, *e.g.*, “Nothing more than the probability that the old customers will resort to the old place.” “The benefit arising from connection and reputation.” Looked at from another point of view, it is the ability of a business to make surplus profit after charging interest on the capital employed, and allowing for a management salary in case the proprietor did not wish to manage it himself. The goodwill may arise from the reputation of the article sold, the personality of the proprietor, monopoly, patents, trade marks, favourable locality, etc. Goodwill is seldom brought into the books unless a sum of money is paid for it. Goodwill must be taken into consideration, however, on the death of an existing partner or the admission of a new one, and also on the sale of the business. For the purposes of sale, the value of the goodwill is taken to be from one to five years’ purchase of the average net

profits for a period of years, though in retail businesses it is often based on the turnover. The goodwill of a Company is legally a fixed asset, and need not be depreciated. Any amounts written off goodwill should, in the opinion of some eminent accountants, be entered in the Appropriation Account as appropriations of profit rather than in the Profit and Loss Account as charges against revenue. (See COMPANY and also PARTNERSHIP.)

**GOVERNMENT SECURITIES.**—This term comprises Consols, Treasury Bills, Exchequer Bonds, etc., the interest on which is guaranteed by the Government. It is generally met with in Bank Balance Sheets, especially those of the Bank of England.

**GROSS LOSS.**—(See LOSS.)

**GROSS PROFIT.**—(See PROFIT.)

**GROUND RENT.**—The rent payable to the ground landlord for the use of his land for building purposes. At the expiration of the lease the buildings erected on the land become the property of the landlord. Income tax must be deducted from each payment of ground rent.

A **Freehold Ground Rent** is one where the ground landlord is a freeholder. A **Leasehold Ground Rent** is one where the superior landlord is himself a leaseholder. Both Freehold and Leasehold Ground Rents are purchased as investments, especially by Insurance Companies.

**Ground Rent less tax.**—In examination work this must be treated in a similar manner to Debenture Interest *less tax*.

**GUARANTEE COMPANY.**—(See COMPANY.)

**GUARANTEED SHARES.**—Shares on which a certain dividend has been guaranteed for a stated period by the promoters of the Company or the vendors of the business.

**GUARANTEED STOCKS.**—Stocks on which the income or interest is guaranteed by the Government of the country in which the Stock is issued, *e.g.*, Consols by the British Government, India 3 per cent. by the India Government, Grand Trunks by the Canadian Government, etc.

**GUARD BOOK.**—A book into which invoices, receipts, vouchers, account-sales, transfers, and other documents are pasted for reference instead of being filed. In some businesses a Guard Book takes the place of the Purchases Book, money columns being provided into which the amounts of the invoices are extended.

**HEAD OFFICE ACCOUNT—HEAD OFFICE ADJUSTMENT ACCOUNT.**—(See BRANCH ACCOUNTS.)

**HEAD RENT.**—Same as Minimum Rent. (See ROYALTIES.)

**HEATING APPARATUS—HEATING AND VENTILATING PLANT.**—A separate account is sometimes opened for machinery of this description. It is depreciated annually by means of a fixed percentage on reducing values, repairs and renewals being charged to Profit and Loss and any additions capitalised.

**HIDDEN RESERVES.**—(See SECRET RESERVES.)

**HIRE-PURCHASE ACCOUNTS.**—Under the Hire-Purchase System the legal ownership of the goods is not vested in the purchaser until the final instalment has been paid. Should default be made in the payment of the instalments, the vendor can demand the return of the goods. The difference between the Hire-Purchase System and Instalment Payment Purchases should be carefully noted.

In the buyer's books no entry will be made until the first instalment is paid. This will then have to be allocated between capital and revenue. The cash value of the articles must be ascertained, and also the rate of interest charged for the hire. Interest on the cash value, or the unpaid portion of it, must be worked out whenever an instalment is payable. The amount of interest will be the proportion of the instalment chargeable to Revenue, while the balance of the instalment will represent the proportion to be capitalised. Depreciation must be charged annually on the cash value, or its diminishing balance, so that the asset shall appear in the books at the end of the time at its then proper value. Repairs and renewals will, of course, be charged to Profit and Loss.

**Example.**—A Colliery Company purchases wagons on the hire-purchase system over a period of five years, payable by annual instalments of £500. The Wagon Co. charge interest at the rate of 5 per cent. per annum on the yearly balances. Show the accounts in the books of the buyer. (Depreciation, 10 per cent.)

The cash value of the wagons may be taken to be the present value of an annuity of £500 for five years at 5 per cent. interest. Reference to the Table gives us the value of an annuity of £1 for five years at 5 per cent. as 4·329477; and this figure multiplied by £500 gives us £2,164 14s. 10d. as the cash value of the wagons.



## In Buyer's Books.

## JOURNAL.

Dr.

Cr.

Year.									
1	Wagon A/c .. .. .	391	15	3					
	Wagon Hire A/c (5 % £2164 : 14 : 10) ..	108	4	9					
	To Wagon Co. .. .. .							500	
2	Wagon A/c .. .. .	411	7	1					
	Wagon Hire A/c (5 % £1,772 : 19 : 7) ..	88	12	11					
	To Wagon Co. .. .. .							500	
3	Wagon A/c .. .. .	431	18	4					
	Wagon Hire A/c (5 % £1,361 : 12 : 6) ..	68	1	8					
	To Wagon Co. .. .. .							500	
4	Wagon A/c .. .. .	453	10	4					
	Wagon Hire A/c (5 % £929 : 14 : 2) ..	46	9	8					
	To Wagon Co. .. .. .							500	
5	Wagon A/c .. .. .	476	3	10					
	Wagon Hire A/c (5 % £476 3 : 10) ..	23	16	2					
	To Wagon Co. .. .. .							500	

## LEDGER.

## WAGON ACCOUNT.

Dr.

Cr.

Year					Year.				
1	To Wagon Co. ..	391	15	3	1	By Depreciation ..	216	9	6
						10% £2,164/14/10			
						„ Balance c/d ..	175	5	9
		391	15	3			391	15	3
2	To Balance b/d ..	175	5	9	2	By Depreciation ..	194	16	6
	„ Wagon Co. ..	411	7	1		10% £1,948/5/4			
		586	12	10		„ Balance c/d ..	391	16	4
							586	12	10
3	To Balance b/d ..	391	16	4	3	By Depreciation ..	175	0	10
	„ Wagon Co. ..	431	18	4		10% £1,753/8/10			
		823	14	8		„ Balance c/d ..	648	7	10
							823	14	8
4	To Balance b/d ..	648	7	10	4	By Depreciation ..	157	16	2
	„ Wagon Co. ..	453	10	4		10% £1,578/2/0			
		1,101	18	2		„ Balance c/d ..	944	2	
							1,101	18	2
5	To Balance b/d ..	944	2		5	By Depreciation ..	142	0	7
	„ Wagon Co. ..	476	3	10		10% £1,420/5/10			
		1,420	5	10		„ Balance c/d ..	1,278	5	3
							1,420	5	10
	To Balance b/d ..	1,278	5	3					

<i>Dr.</i>				WAGON HIRE ACCOUNT.				<i>Cr.</i>			
Year.				Year.							
1	To Wagon Co. ..	108	4	9	1	By P. & L. A/c ..	108	4	9		
2	" " " ..	88	12	11	2	" " " ..	88	12	11		
3	" " " ..	68	1	8	3	" " " ..	68	1	8		
4	" " " ..	46	9	8	4	" " " ..	46	9	8		
5	" " " ..	23	16	2	5	" " " ..	23	16	2		

<i>Dr.</i>				WAGON COMPANY.				<i>Cr.</i>			
Year.				Year.							
1	To Cash ..	500		1	By Sundries ..	500					
2	" " " ..	500		2	" " " ..	500					
3	" " " ..	500		3	" " " ..	500					
4	" " " ..	500		4	" " " ..	500					
5	" " " ..	500		5	" " " ..	500					

It will be seen that the value of the wagons at the end of the fifth year is exactly what it would be supposing we had paid cash for them, and depreciated them annually thus—

Value 1st year .. ..	2,164	14	10
less Depreciation at 10 % .. ..	216	9	6
Value 2nd year .. ..	1,948	5	4
less Depreciation at 10 % .. ..	194	16	6
Value 3rd year .. ..	1,753	8	10
less Depreciation at 10 % .. ..	175	6	10
Value 4th year .. ..	1,578	2	
less Depreciation at 10 % .. ..	157	16	2
Value 5th year .. ..	1,420	5	10
less Depreciation at 10 % .. ..	142	0	7
£	1,278	5	3

In some cases, the seller requires the first instalment to be paid on the signing of the agreement. This will affect the calculations, as there will be one less instalment of interest.

In the Seller's books the items will be entered at their cash value in a special Hire-Purchase Journal, and posted to the

debit of the purchaser and to the credit of a Hire-Purchase Sales Account. As each instalment falls due, the customer's account, or the unpaid balance of it, will be debited with interest, which will be credited to an Interest or Hire-Purchase Interest Account, and taken eventually to Profit and Loss as a profit. As the goods, however, are not yet the actual property of the buyer and may be returned, a reserve should be made to cover any possible loss arising from such a contingency.

**Example.**—Referring to the previous example, write up the accounts in the books of the seller.

**In Seller's Books.**  
**LEDGER.**

Dr.

COLLIERY COMPANY.

Cr.

Year.					Year.				
1	To Hire Purchase Sales A/c ..	2,164	14	10	1	By Cash ..	500		
	„ Interest at 5%.	108	4	9		„ Balance c/d ..	1,772	19	7
		2,272	19	7			2,272	19	7
2	To Balance b/d ..	1,772	19	7	2	By Cash ..	500		
	„ Interest at 5%.	88	12	11		„ Balance c/d ..	1,361	12	6
		1,861	12	6			1,861	12	6
3	To Balance b/d ..	1,361	12	6	3	By Cash ..	500		
	„ Interest at 5%.	68	1	8		„ Balance c/d ..	929	14	2
		1,429	14	2			1,429	14	2
4	To Balance b/d ..	929	14	2	4	By Cash ..	500		
	„ Interest at 5%.	46	9	8		„ Balance c/d ..	476	3	10
		976	3	10			976	3	10
5	To Balance b/d ..	476	3	10	5	By Cash ..	500		
	„ Interest at 5%.	23	16	2			500		
		500							

Dr.

HIRE-PURCHASE INTEREST.

Cr.

Year.					Year.				
1	To P. & L. A/c ..	108	4	9	1	By Colliery Co. ..	108	4	9
2	„ „ „ ..	88	12	11	2	„ „ „ ..	88	12	11
3	„ „ „ ..	68	1	8	3	„ „ „ ..	68	1	8
4	„ „ „ ..	46	9	8	4	„ „ „ ..	46	9	8
5	„ „ „ ..	23	16	2	5	„ „ „ ..	23	16	2

**HOLDER IN DUE COURSE.**—(See BILL OF EXCHANGE.)

**HOLDING OUT.**—The representation by a person that he is a partner in any particular firm. He becomes liable, as if he were a partner, to anyone who has been induced to give credit to the firm on the strength of such representation. (See PARTNERSHIP ACCOUNTS.)

**HORSE-KEEP** (Hay, Straw, and Provender)—**HORSE AND STABLE EXPENSES.**—A separate account is generally opened for expenses of this description, and closed eventually by transfer to Profit and Loss.

**HORSES AND CARTS—HORSES AND VANS—HORSES, HARNESS, VANS, AND VEHICLES.**—Property of this description is generally booked up to an account of the same name. Depreciation is written off annually by means of a fixed percentage on diminishing values, repairs and renewals being charged to revenue, and any additions capitalised. Horses and Carts are sometimes posted to the Loose Plant Account; and horses and harness are often re-valued at the end of each financial period, instead of being depreciated annually at a fixed rate.

**HOTCHPOT—HOTCHPOTCH.**—The bringing into account of any advancements made to a child during the parent's lifetime. At the death of the testator such advances will, if brought into hotchpot, form part of the estate to be distributed. If it is then found that the child is entitled to more than he has received, he will be paid the balance; but if it is then found that he has already received more than his share, he cannot be called upon to repay anything. Should, however, he refuse to allow the advances made to him to be brought into hotchpot—and the law gives him the option—he will not be allowed to participate in the distribution of the residue.

**Example 1.**—X died, leaving the residue of his estate, £12,600, to be divided equally among his three children: Alfred, George, and Mary, who had already received advances of £5,000, £4,000, and £3,000 respectively. Show the distribution of the residue, taking into hotchpot the advances made.

			Total.		Alfred.		George.		Mary.	
Residue .. ..	£12,600	0 0								
add Advances..	£12,000	0 0								
			24,600		8,200		8,200		8,200	
Less Advances	.. ..	..	12,000		5,000		4,000		3,000	
Balances due	.. ..	..	12,600		3,200		4,200		5,200	

**Example 2.**—The previous example, but supposing Alfred's advance to have been £10,700 instead of £5,000. Show the distribution of the residue, bringing the advances into hotchpot.

$$\begin{aligned}\text{Residue} + \text{Advances} &= \text{£}30,300 \\ \text{One-third of £}30,300 &= \text{£}10,100\end{aligned}$$

Alfred's advance is, therefore, greater than his proper share, and he will consequently be excluded. The distribution will be as follows—

				Total.		George.		Mary.	
Residue .. ..	£12,600	0	0						
add Advances	£ 7,000	0	0						
				19,600		9,800		9,800	
Less Advances	..	..	..	7,000		4,000		3,000	
Balances due ..	..	..	..	12,600		5,800		6,800	

**HOTEL ACCOUNTS.**—(See TABULAR BOOK-KEEPING.)

**HOUSEKEEPING EXPENSES.**—This item figures in the accounts of firms such as drapers, outfitters, etc., employing a large number of assistants who “live in.” As it is for the assistants' board, it is a proper charge against the profits of the business. In examination work students thoughtlessly charge such an item to the proprietor's Drawing Account instead of to Profit and Loss.

**HYPOTHECATION, LETTER OF.**—(See DOCUMENTARY BILL.)

**I.F.**—An abbreviation for “insufficient funds,” written by bankers on a cheque to explain why they refuse to pay it. This happens whenever a person overdraws his banking account without the consent of his banker.

**IMPERSONAL ACCOUNTS.**—(See ACCOUNT.)

**IMPERSONAL LEDGER.**—(See LEDGER.)

**IMPREST SYSTEM.**—(See PETTY CASH.)

**IMPROVEMENTS TO PREMISES.**—(See ALTERATIONS.)

**INCIDENTAL EXPENSES ACCOUNT.**—An account for any accidental or occasional expenses. It is closed, like other nominal accounts, by transfer to Profit and Loss.

**INCOME.**—Money received regularly from Investments or Property, or in return for services rendered.

**Earned Income.**—(See INCOME TAX.)

**Unearned Income.**—(See INCOME TAX.)

**INCOME AND EXPENDITURE ACCOUNT.**—This is only another term for a Profit and Loss Account. It is used for *non-trading* concerns, such as clubs, societies, hospitals, and also for professional men and for private individuals.

The difference between an Income and Expenditure Account and a Receipts and Payments Account should be clearly understood by the student.

An Income and Expenditure Account deals with the income and expenditure of the *current* year only, but with the whole of it. All items of income and expenditure belonging to the period must, therefore, be included, even though they have not been actually received or paid at the time of making up the Account. The balance of the Account shows the surplus of income over expenditure, or *vice versâ*; it represents the surplus or deficit for the year, and is carried to the Balance Sheet. It is often called a **Revenue Account**, to which it is exactly similar in character.

A Receipts and Payments Account is simply a summary of the cash transactions, as per the Cash Book, analysed or classified under suitable headings. It deals with the whole of the cash received and paid during the year, and contains the balance of cash in hand at commencement and at end of the year. It may therefore include income and expenditure not only for the *current* year, but also for the *previous* year, and even for the *succeeding* year.

It is not unusual to find some published "Income and Expenditure Accounts" showing the income on the *Dr.* side and the expenditure on the *Cr.* side, and containing the balance from the previous year; in some cases, they are even called "Balance Sheets." The nomenclature of such accounts is, of course, quite wrong and very misleading. They are nothing more or less than Receipts and Payments Accounts, and should be so headed. A proper Income and Expenditure Account shows the expenditure on the *Dr.* side, and the income on the *Cr.* side, and does *not* include any balance from the *previous* year, which would simply make it impossible to arrive at the true income or expenditure for the *current* year.

**Example.**—From the following particulars prepare Income and Expenditure Account and Balance Sheet of the "Alpha" Club for the year ending 31st December, 19...



	£	s.	d.
Annual Subscriptions .. ..	666	10	6
Entrance Fees .. ..	220	0	0
Sale of Tickets for Entertainments ..	150	0	0
Dividends on Consols, less tax ..	11	15	5
Printing and Stationery and Stamps ..	376	6	0
Honorarium to Secretary .. ..	150	0	0
Repairs, Cleaning and Washing ..	120	15	8
Cost of Entertainments .. ..	75	16	4
Sale of Tickets for Annual Dinner ..	86	15	6
Newspapers and Magazines .. ..	55	10	6
Hire of Hall ( <i>Cr. balance</i> ).. ..	200	0	0
Profit on Sale of Wines and Spirits, Beer, Minerals, Cigars and Tobacco .. ..	108	11	9
Rent, Rates and Taxes .. ..	130	15	9
Salaries of Staff .. ..	250	10	6
Interest on Bank Deposit less tax..	18	16	8
Cost of Annual Dinner .. ..	65	10	0
Gas and Electric Light .. ..	75	13	4
Receipts from Billiard Rooms .. ..	220	10	6
Auditor's Fee .. ..	25	0	0
Cash in hand .. ..	25	15	6
Cash at Bank .. ..	250	12	11
Cash on Deposit at 5 % .. ..	400	0	0
Sundry Creditors .. ..	158	15	11
£580 Consols .. ..	500	0	0
Capital A/c as per last Balance Sheet ..	1,950	18	9
Library Books, 1st Jan., 19.. ..	250	0	0
Furniture, Fixtures, and Fittings, 1st Jan., 19..	500	0	0
Glass, Cutlery, China, House and Table Linen, 1st Jan., 19.. ..	320	0	0
Stock of Stationery, 31st Dec., 19.. ..	55	10	6
Stock of Wines and Spirits, Beer, Minerals, Cigars and Tobacco, 31st Dec., 19.. ..	220	8	6

Of the Subscriptions £25 is paid in advance ; there is also £15 in arrear. Depreciation is to be written off Library Books, Furniture, Glass, Cutlery, etc., at 10 per cent. per annum. (For solution, see pages 445 and 446.)

**INCOME TAX.**—Income Tax is a deduction of a certain number of pence from each pound sterling of income from whatever source.

**Origin of Tax.**—Income Tax was introduced by Pitt as a war tax in the year 1799, when a tax was levied on all incomes above £60. In 1803 the principle of taxation of income at its source was adopted. The tax was abolished in 1816, but was reimposed by Peel in 1842. The Income Tax Act, 1803, enumerates the five schedules under which income tax is still

**THE ALPHA CLUB.**  
**INCOME AND EXPENDITURE ACCOUNT**  
**FOR THE YEAR ENDING 31ST DEC., 19..**

Dr.			Cr.			
	Expenditure.		Income.			
To Printing, Stationery, and Stamps .. ..	376	6	By Annual Subscriptions ..	666	10	6
Less Stock c/f .. ..	55	10	Ditto due .. ..	15		
				681	10	6
Salaries of Staff .. ..			Less paid in advance ..	25		
Repairs, Cleaning and Washing .. ..						
Cost of Entertainments ..			Entrance Fees .. ..		656	10
Rent, Rates, and Taxes ..			" Sale of Tickets for Entertainments .. ..		220	6
Honorarium to Secretary ..			" Hire of Hall .. ..		150	
Cost of Annual Dinner ..			" Interest on Bank Deposit, less Tax .. ..		200	
Gas and Electric Light ..			" Dividends on Consols, less Tax .. ..		18	16
Newspapers and Magazines..			" Sale of Tickets for Annual Dinner .. ..		11	15
Depreciation—			" Receipts from Billiard Rooms ..		86	15
Library Books .. ..	25		" Profit from sale of Wines and Spirits, Beer, Minerals, Cigars and Tobacco ..		220	10
Furniture, etc. .. ..	50				108	11
Glass, Cutlery, etc... ..	32					9
Auditor's Fee.. ..						
Balance (Surplus of Income over Expenditure for the Year) .. ..						
					1,673	0
					4	

## THE ALPHA CLUB.

BALANCE SHEET AS AT 31st DEC., 19..

Liabilities.		Assets.	
Sundry Creditors .. ..	158	Cash in hand .. ..	25
Subscriptions paid in advance ..	15	Cash at Bank .. ..	15
Capital Account—	25	Cash on Deposit .. ..	250
Balance, 1st Jan., 19.. ..	1,950	£580 Consols .. ..	400
Add Surplus for year as per ..	18	Outstanding Subscriptions ..	500
Income and Expenditure ..	9	Library Books .. ..	15
Account .. ..	295	Less Depreciation .. ..	250
			25
		Furniture, Fixtures and Fittings ..	500
		Less Depreciation .. ..	50
		Glass, China, Cutlery, House and ..	
		Table Linen .. ..	320
		Less Depreciation .. ..	32
		Stock of Stationery .. ..	288
		Stock of Wines and Spirits, Beer, ..	55
		Minerals, Cigars and Tobacco ..	10
			6
			220
			8
			6
			2,430
			7
			5

levied. The Finance Act, 1907, instituted the principle of differentiation between earned and unearned income, and the Finance Act of 1910 established the super-tax. Subsequent Acts have been chiefly remarkable for the increases in the rates of charge. In 1918 the enactments relating to Income Tax were consolidated by the Income Tax Act, 1918, certain sections of which have been modified by the Finance Acts of 1919, 1920, 1921, and 1922.

**Persons Liable to Income Tax.**—All persons resident in the United Kingdom, whether British subjects or not, are liable to assessment ; and also all persons not resident within the United Kingdom (whether British subjects or not) in so far as they derive income from property, trade, or employment in the United Kingdom.

**Taxation of Income at Source.**—All income as far as possible is taxed at the source, that is, the person paying the income is expected to deduct the tax and hand over same to the Commissioners of Inland Revenue. If he omits to do so, he is nevertheless still liable for it to the Income Tax Authorities. A Limited Company, for example, pays tax on the whole of its profit before it is divided between the shareholders. A tenant is taxed upon the rent before it is paid to the landlord. Tax is deducted, with certain exceptions, from all dividends and interest on public stocks before such dividend or interest is remitted to the stockholder. A firm is now liable for the tax due by its partners. Previously, partners could claim to be separately assessed, but the Finance Act, 1907, abolished this concession. They can still claim separate allowances, but such allowances are made off the firm's assessment, thus keeping to the principle of taxing income at the source.

**Rates of Income Tax.**—Up to the year 1920-21 the tax chargeable was on a graduated scale according to the total income of the tax-payer, the earned portion of the income being charged at a lower rate than the unearned portion. By the Finance Act, 1920, alterations were made in the reliefs and allowances, 10 per cent. (up to a limit of £200) being allowed against the earned portion of the income, the first £225 of taxable income being charged at 3s. in the £ and the balance at 6s. in the £. By the Finance Act, 1922, these rates of tax were reduced to 2s. 6d. and 5s.

**Income Tax Commissioners.**—These are of two kinds, General or District Commissioners, and Special Commissioners.

**District Commissioners.**—These are influential persons with certain property qualifications, appointed, without remuneration, for the different districts. They elect the Additional Commissioners, and hear appeals against assessments made by them.

**Additional Commissioners.**—These are persons selected by the General or District Commissioners from among themselves. Their duty is to fix the amount of the assessment after inspecting the Assessor's books and hearing the evidence of the Inspector of Taxes. They are divided into committees representing the various trades or classes of business. Schedule D assessments are made by them.

**Assessors.**—These are paid officials appointed by the District Commissioners, and their duty is to issue all the notices necessitated by the Income Tax enactments. In the early part of the Government year they send out the well-known yellow Form to all persons liable under Schedule D, with a request for the document to be completed and returned within twenty-one days. Every person must make a return, when called upon to do so, whether he is liable to tax or not. Where no return is made, the Assessor estimates the amount of income. The list of these names and amounts is then handed to the Commissioners. The Assessors also make assessments under Schedules A, B, and E, which are likewise handed to the Commissioners.

**Inspector of Taxes.**—This is an official of the Board of Inland Revenue. He supervises returns and the assessments made by the assessors before they are handed to the Commissioners. He is empowered to fill in omissions, amend assessments, and make surcharges. Where no return is made, he issues a second form demanding that the information required be supplied within seven days. Notices of appeals against assessments must be forwarded to him. Where proper accounts are furnished the amount of the assessment can generally be arranged satisfactorily with the inspector. When appeals are made to the District or Special Commissioners, the inspector appears in support of the assessment. Appeals to the Court of King's Bench are conducted in the Inspector's name.

**Special Commissioners.**—These are a body of paid Government Officials at Somerset House. They assess all taxpayers who wish to be assessed by them, and hear appeals, in London and throughout the country, from their own assessments and also from the assessments made by the Additional

Commissioners. They can be called upon by the taxpayer to state a case, on a point of fact, for decision by the Board of Inland Revenue. No such appeal can be made against the district Commissioners; their decision on questions of *fact* is final. On a point of *law*, however, an appeal can be made to the High Court, the Court of Appeal, and also to the House of Lords against both the Special and the District Commissioners.

The Commissioners of Inland Revenue are *ex-officio* Special Commissioners for Schedule D tax.

The Special Commissioners make assessments on Railway Companies under Schedule A, and hear appeals from assessments of mines, quarries, etc. They assess Railway Officials under Schedule E, and interest and dividends from British, Colonial, and Foreign Revenues under Schedule C. Assessments for super tax are also made by them.

**Official Year of Assessment.**—The year of assessment is the Government's financial year, which runs from April 6th in one year to April 5th in the next year.

**Schedules under which Income Tax is Levied.**—There are five schedules, as follows—

Schedule A, income from ownership of land, buildings, etc.

Schedule B, income from occupation or use of land.

Schedule C, income from government and public stocks.

Schedule D, income from trade, profession, or vocation.

Schedule E, income from public office and employments generally.

#### SCHEDULE A.

**Scope of Tax.**—Schedule A tax, known as Landlord's or Property Tax, is levied on income from the *ownership* of House Property, Land, Buildings, etc.

**Annual Value.**—This is the amount of annual rent which the property would bring in if it were let. Where the owner occupies his own premises, such annual value is deemed to be his income from them, although he does not actually receive anything.

**Mode of Assessing House Property.**—Schedule A assessments are made every five years. They are not liable to any increase during this time; but, on the other hand, a reduced assessment may be claimed if the value of the property declines. The assessments are based on the Poor Rate Returns, compiled from forms issued quinquennially to all the occupiers of premises, who are required to state the amount of rent



paid, and also whether the tenant or the landlord pays the rates.

Where the proprietor himself is the occupier, the assessment is based on the net annual value, *i.e.*, the gross value *less* the statutory allowance for repairs, the occupier being naturally expected to bear the rates and taxes. If his total income is below £135, he should return the assessment form immediately and have it cancelled; otherwise he will have to pay the tax, and go to the trouble of getting it refunded.

Where the tenant bears the rates and taxes, and is also responsible for keeping the property in repair, the statutory deduction will not be made, the net assessment will be the amount of rent payable.

Where the tenant bears the rates and taxes, but not repairs, the assessment will be the amount of rent payable *less* the statutory allowance, thus—

			£	s.	d.
Yearly Rent at 12s. 6d. per week .. ..	..	..	32	10	0
Less Allowance for Repairs, $\frac{1}{5}$ .. ..	..	..	6	10	0
Net Annual Value .. ..	..	..	26	0	0

Where the owner bears both rates and taxes and repairs, the assessment is based on the amount of rent receivable, *less* rates and taxes and the statutory allowance, thus—

			£	s.	d.
Yearly Rent at 15s. 0d. per week .. ..	..	..	39	0	0
Less Rates and Taxes (say) .. ..	..	..	14	0	0
			25	0	0
Less Allowance for Repairs, $\frac{1}{5}$ .. ..	..	..	5	0	0
Net Annual Value .. ..	..	..	20	0	0

Up to the year 1923-24 the statutory allowance was one-sixth of the gross value of the premises, but by the Finance Act, 1922, the allowances now read—

Gross assessment not exceeding £20	= one-fourth.
" " " " £40	= one-fifth.
" " " exceeding £40	= one-sixth.

Where the value is between £20 and £40 the allowance may not be less than £5 (one-fourth of £20) and over £40 not less than £8 (one-fifth of £40), otherwise a person whose premises are valued at £42 would be allowed £7 only, as against £8 where the premises are worth £40.

**Mode of Assessing Farm Property.**—In the case of Farm or agricultural property the assessments are made in a similar manner, less any tithe payable. The statutory allowance for

repairs, however, is only one-eighth instead of one-sixth, etc., repairs not being so heavy as in the case of house property. A farm assessment will therefore be as follows—

Yearly Rent .. .. .	£320
Less Allowance for Repairs, $\frac{1}{8}$ .. ..	40
	<hr/>
Less Tithe (say) .. .. .	£280
	30
	<hr/>
Net Annual Value .. ..	<u>£250</u>

**Extra Statutory Allowances.**—The statutory allowance of one-fourth, one-fifth, or one-sixth in the case of house property, and one-eighth in the case of agricultural property, is expected to cover all outgoings, and no further charges, *e.g.*, agent's fee for collecting rent, will be allowed off the assessment. The owner of any land or houses on giving satisfactory proof that the cost to him of maintenance, repairs, insurance and management, according to the average of the preceding five years, has exceeded  $\frac{1}{4}$ th,  $\frac{1}{5}$ th,  $\frac{1}{6}$ th or  $\frac{1}{8}$ th of the gross annual value, as the case may be, is entitled to an additional allowance of the difference between the statutory allowance and the ascertained cost. This applies to any land (inclusive of farmhouses and other buildings if any), and to houses.

Up to 1923-24 these extra allowances were granted only in cases where the annual value did not exceed certain stated limits, but the allowance is now granted in all cases. The ordinary allowance of one-sixth or one-eighth is made at the source; the extra allowance can be obtained by claiming repayment of tax.

**Landlord's Tax Collected from Tenant.**—Schedule A tax is in most cases collected from the tenant, who is empowered by law to recoup himself by deducting the amount of the tax so paid from the next payment of rent. The landlord, on being shown the official receipt, is bound by law to allow such a deduction; and any agreement waiving the tenant's rights in this respect is void. The tenant, however, cannot deduct more than the tax on the actual rent he pays, even when the net assessment is higher than the rent. Thus if a person pays £50 a year rent to a parent or friend for a house assessed for tax at £80, he will pay income tax on £80; but he will only be entitled to deduct tax on £50 from his next payment of rent. He has a beneficial interest in the premises, and must, therefore, bear a proportion of the tax.

**Tax sometimes Collected from Landlord.**—In the case of property where the annual rent is less than £10, and in the case of land and buildings let for less than one year, the assessment is made direct on the landlord.

**Relief when Property is not Tenanted.**—Where a house has not been occupied during the year of assessment or a part of it, an appeal can be made to have the assessment cancelled or reduced, as the case may be.

**Schedule A Unearned Income.**—Income returnable under Schedule A is *unearned* income. Where, however, a house, rent free, forms part of the emoluments of a person's office or employment, the net annual value is regarded as *earned* income.

**Exemptions under Schedule A.**—Certain classes of property coming under this schedule are exempt from taxation, viz., public schools and buildings, university halls and colleges, churches, hospital buildings, almshouses, literary and scientific institutions, etc.

#### SCHEDULE B.

**Scope of Tax.**—Schedule B, or Farmers' Tax, is levied on the profits arising from the occupation or use of agricultural lands, including farms, nursery and market gardens, etc.

**How the Amount of Income is Arrived at.**—The income is estimated to be the amount of the full or gross annual value or rent inclusive of Title, and is regarded as *earned* income. In the case, however, of nursery and market gardens, etc., the assessment, though made under Schedule B, is calculated according to the procedure under Schedule D. Where a person is both owner and occupier of a farm, he will pay income tax under Schedule A on the annual value of the farm, and under Schedule B on the estimated profits of the farm. Thus, suppose a person owns and occupies a farm assessed gross at £720. He will pay tax under Schedule A on £630 (£720 less one-eighth or £90), and under Schedule B on £720 (*i.e.*, the full annual value), the estimated profits.

**Repayment of Overcharge.**—If a farmer can give satisfactory proof that his actual income from working the farm is lower than the statutory income, he may claim return of tax on the difference between these two amounts.

**Reduction of Assessment.**—Assessments under Schedule B are made quinquennially, and are not liable to any increase during this period, even though the rent be raised ; but, on the other hand, a reduced assessment may be claimed if the rent has been lowered. Where, owing to floods or storms, growing

crops have been damaged or lands rendered unfit for cultivation, and the landlord has on this account abated any portion of the rent, the commissioners may make a corresponding reduction in the assessment.

**Option of Assessment under Schedule D.**—A farmer has the option of being assessed under Schedule D like an ordinary trader instead of under Schedule B, provided he gives notice to the surveyor within the first two months of the year of assessment (*i.e.*, before 6th June). In such cases the assessment will be on the average profit of the three preceding years.

#### SCHEDULE C.

**Scope of Tax.**—Schedule C tax, called the Stockholders' Tax, relates to profits from interest, annuities, dividends, etc., payable out of Public Funds. This includes not only the United Kingdom, but the Colonies, and also any foreign stock where an agent or bank in the United Kingdom is entrusted with the payment of the dividend or interest. Interest and dividends on foreign public stocks which are not paid by an agent resident in the United Kingdom are taxed under Schedule D.

**Mode of Assessment.**—Tax is charged on the actual profits of the year of assessment.

**How Tax is Collected.**—The tax is generally collected at source by deduction. The bank or agent responsible for the payment of the dividend or interest is empowered to retain the tax, and to pay same in one lump sum to the Inland Revenue Authorities.

**Exceptions to Above Rule.**—There are, however, exceptions to the rule of deducting tax from the interest or dividend (*e.g.*, where the half-yearly dividend payable out of the Public Funds amounts to less than 50s., such dividend is paid in full without deduction of tax). The object of this is to avoid putting small holders, whose total incomes are not likely to exceed £135, to the trouble of claiming repayment of tax. Interest on several of the War Loans is also payable without tax being deducted.

**Schedule C Unearned Income.**—Schedule C income is regarded as *unearned* income.

#### SCHEDULE E.

**Scope of Tax.**—Schedule E, or Salary Tax, relates to income from public office or employment, from annuities

(except those taxed under Schedule C), pensions, and stipends payable out of the public revenue, or by public or limited companies or private firms.

**Mode of Assessment.**—Under Schedule E assessments are made on officials of the Government, including the Civil Service, officers of the army and navy, officials of the law courts, and of any public body, society or corporation, also on the employees of any limited company or a private firm. The assessment is made on the actual income of the year of assessment.

Until the year 1922-23 employees of a private firm were assessed under Schedule D (3 years' average) and subordinate employees of a limited company were similarly assessed (as a concession). All employments now come under Schedule E.

**Collection of Tax.**—Schedule E tax is generally payable by the individual himself. Railway Companies, however, are empowered to deduct income tax from the salaries of their employees, except weekly wage earners, being liable to the Revenue Authorities for the amounts so deducted. Tax is also deducted at the source in the case of salaries payable at Government Offices to officials and others.

**Directors' Fees and Remuneration.**—Directors' Fees are assessed, under this Schedule, on the directors themselves and not on the Company. Where the directors are remunerated by means of a percentage on the annual profits, they can, by reason of fluctuating income, claim to be assessed on the average of three years. The tendency of limited companies, especially private companies, is to remunerate the directors in this way, as such profit is then earned income taxable at the lower rate; whereas if it had been distributed to them by way of *dividend*, it would be unearned income and not subject to the reduction of 10 per cent.

**Supplementary Assessment.**—Any official who, during the year of assessment, receives an additional salary, is liable to have a supplementary assessment made on him for such increase.

**Deductions Allowed.**—Any person who, in the performance of his duties, is necessarily obliged to make any disbursements, or to incur the expenses of travelling, or maintaining a horse, etc., may deduct same from the amount of the assessment.

**Return of Employees and Salaries.**—A Return must be made by employers, corporations, and limited companies of the names and addresses of their employees, and of the salaries, fees, commission, bonus, etc., paid to them. Where



the total income of such employees does not exceed £150, their names may be omitted.

**Schedule E Earned Income.**—Income returnable under Schedule E is regarded as *earned* income.

**Quarterly Assessments.**—Quarterly Returns are to be made by employers, giving particulars of wages paid to weekly wage earners (by way of manual labour) where the rate exceeds £150 a year. Clerks, typists and similar employees are not to be included. One-fourth of the allowances to which the employee is entitled is set against the quarter's wages and if the allowances exceed the wages of the quarter the difference is carried forward to the following quarter and so on until the end of the year: the year's allowances being set against the year's wages.

#### SCHEDULE D.

**Scope of Tax.**—Under Schedule D tax is levied on income arising from the following sources—

- (1) Trade, Manufacture, Adventure, or concern in the nature of Trade.
- (2) Professions, or Vocations.
- (3) Profits of an uncertain annual value not charged under Schedule A, *i.e.*, discounts and interest on money not taxed by deduction.
- (4) Profits from Colonial and Foreign Securities, where tax has not been deducted by the agent entrusted with payment thereof.
- (5) Profits from Foreign and Colonial Possessions.
- (6) All annual profits or gains not included under the foregoing heads and not charged under any other schedule.

**Mode of Assessment.**—Persons assessable to Income Tax under Schedule D may elect to be assessed either by the Commissioners of their District under a number or letter, or by the Special Commissioners of Income Tax. In the absence of election, they will be assessed in the usual course by the Commissioners of their District.

The former method is adopted by traders who have personal friends or business competitors among the District Commissioners, in order to prevent the latter knowing anything about their private affairs. The second method takes the matter out of the hands of the local commissioners altogether.

Returns for Assessment by the District Commissioners under a number or letter should be sent to the Clerk to the



Commissioners, whose address will be furnished by the Assessor or Inspector of Taxes on application. Returns for Assessment by the Special Commissioners should be sent to the Inspector of Taxes under cover, marked "For Special Assessment." In other cases the form should be returned to the Assessor or Inspector by whom it was issued. The form should be filled up before transmission in all cases.

Any person who neglects to make a Return, or who makes an untrue Return, renders himself liable to certain penalties mentioned on the Form.

**Profits from Discounts, and Interest of Money not taxed by Deduction.**—Under this head fall all Discounts and untaxed Interest received or credited, including Interest on Banking Account or Deposits, and also Dividends in the Public Funds of which the half-yearly amount is less than fifty shillings, where such Dividends are not payable upon Coupons annexed to Stock Certificates payable to bearer.

**Profits from Colonial and Foreign Securities.**—If received through an Agent who deducts British Income Tax on payment of the Income, these profits should not be entered. But if British Income Tax is not so deducted, the amount received in the United Kingdom must be returned for assessment.

**Profits from Colonial and Foreign Possessions.**—*Average.*—The amount to be returned is the full annual amount received in the United Kingdom on the average of the three preceding years, without any deduction.

**Profits of Trade, Profession or Vocation.**—Where Income is derived from the exercise of any business, profession or vocation, the amount of Income to be returned for assessment in any given year is neither the actual Income of that year, nor the Income which a person expects to make in that year, but is a "*statutory*" Income, of which the amount is to be computed from actual ascertained figures. These are the figures shown by the accounts of the business or profession for the three years immediately preceding the year for which a return has to be made, and the computation from them is to be made according to prescribed rules, of which the following is an abstract—

#### RULES AND REGULATIONS FOR CALCULATING PROFITS.

The Tax extends to the Profits of all Trades, etc., carried on or exercised in the United Kingdom by any Person whatsoever, whether a British subject or not, and wheresoever residing; and also to the Profits of Trades carried on or exercised elsewhere than in the United

Kingdom, if carried on or exercised by Persons residing in the United Kingdom.

**Average.**—The amount of Profits is to be computed on an Average of the Three preceding Years, ending either on the date, prior to the 5th day of April, of the year of assessment, to which the Annual Accounts have been usually made up, or on the 5th day of April ;

Or, if the Trade, etc., has been set up or commenced within three years, on an average from the period of commencing the same ;

Or, if commenced within the year of Assessment, the Profits are to be estimated according to the best of one's knowledge and belief, and the ground on which the amount shall have been estimated should be stated for the information of the Commissioners.

**Deductions Allowed.**—In computing the profits upon which the average is to be taken, the following deductions are allowed—

- (1) Repairs of Premises occupied for the purpose of the Trade, etc., and for the Supply or Repair of Implements, Utensils, or Articles employed, not exceeding the sum usually expended for such purposes according to the average of the three years preceding.
- (2) Debts proved to be bad ; also for Doubtful Debts according to their Estimated Value.
- (3) Rent of Premises used *solely* for the purposes of business, and not as a place of residence.
- (4) A proportion, not exceeding two-thirds, of the Rent of any dwelling-house *partly* used for the purposes of business.
- (5) The Annual Value of any premises occupied by the Owner *solely* for the purpose of business, and not as a place of residence,<sup>1</sup> according to the amount on which duty has been paid under Schedule A ; less ground rent, if any.
- (6) A proportion, not exceeding two-thirds, of the Annual Value (according to the amount on which Duty has been paid under Schedule A—less ground rent, if any), of any dwelling-house occupied by the Owner and *partly* used for the purposes of business.
- (7) Any other disbursements or expenses wholly and exclusively laid out for the purposes of the Trade, etc.
- (8) Sums paid as Corporation Profits Tax.

*Note :* In cases (4) and (6) the Commissioners may allow a greater sum than two thirds, where they consider circumstances warrant it.

**Deductions Not Allowed.**—In computing the profits upon which the average is to be taken the following deductions are not allowed—

- (1) Interest on Capital, any Annual Interest, Annuity, or other Annual Payment, payable out of the Profits or Gains, or any Royalty or other sum paid in respect of the user of a Patent. (The duty on such Interest, Patent Royalty, or other Annual Payment should be deducted from the person to whom the payment is made.)
- (2) Sums paid as Salaries to Partners, or Drawings by Partners.
- (3) Sums invested or employed as Capital in the Trade or Business, or on account of Capital withdrawn therefrom.

<sup>1</sup> From 1918, a trader may deduct the *full* annual value of factories, mills, and similar premises owned by him, although he has paid property tax on only five-sixths of such annual value

- (4) Sums expended in Improvement of Premises or written off for Depreciation of Land, Buildings, or Leases.
- (5) Loss not connected with, or arising out of the Trade, etc.
- (6) Expenses of Maintenance of the Persons assessable, their Families, or Establishments; or any sum expended in any other domestic or private purpose.
- (7) Losses recoverable under an Insurance or Contract of Indemnity.
- (8) Sums paid as Income Tax on Profits or Gains, or on the Annual Value of Trade Premises.
- (9) Premiums for Life Assurance, or for Wear and Tear of Machinery or Plant; but Allowances may be Claimed in respect of these items.

**Date to which Profits are to be computed.**—In certain cases the profits of a single year (and not the average profits of three years) are to be taken as determining the amount of the income to be assessed. Where the single year is "the preceding year," the year to be taken is strictly speaking the year ended on the preceding 5th April: but in practice it is usually the last calendar year, or the last year to the date at which it is the custom of the taxpayer to make up his accounts. Similarly, where the single year is "the current year," this should in strictness be the current Income Tax year to 5th April following: but in practice it is usual to take the current calendar year.

**Wear and Tear of Machinery and Plant.**—An allowance for diminished value of Machinery and Plant by reason of Wear and Tear may be claimed where the Machinery or Plant belongs to the trader, or is so let to him that he is bound to maintain and deliver it over in good condition. Where rent is paid for the use of Machinery or Plant, and the burden of maintaining and restoring it falls upon the Lessor, no deduction for Wear and Tear is allowable to the Lessee.

**Income of Married Women.**—The Income of a married woman living with her husband is, by the Income Tax Acts, deemed to be his Income; any profits from business, profession, etc., or untaxed income belonging to her are required to be returned for assessment by her husband; and, if exemption, or relief be claimed, the whole of her income from every source, whether taxed or not, is required to be included in the Statement.

**Allowance in respect of Life Assurance Premiums.**—From the total tax payable an allowance is made in respect of premiums paid on the life of the taxpayer or his wife—but not children—subject to the following restrictions—

- (1) Total premiums must not exceed one-sixth of the total income.

On Life Policies effected after 22nd June, 1916, a sum must be assured at death, and in the case of deferred assurances no allowance is made during the period of deferment. Policies in connection with a superannuation fund or a *bona fide* pension scheme are not thus restricted. On policies effected before 22nd June, 1916, the rate of tax on the Premiums paid is—

5s.	"	"	"	"	"	exceeds	£2,000.
-----	---	---	---	---	---	---------	---------

(6) £45 to an unmarried man who has his widowed mother or other female relative resident with and maintained by him for the purpose of having charge of his brothers and sisters for whom he receives an allowance. This is also granted to an unmarried woman in similar circumstances.

FORM NO. 1.—PAGE 2.

**Section A.****STATEMENT OF UNTAXED INCOME FOR ASSESSMENT UNDER SCHEDULE D.**

*In cases where there is no untaxed income to be returned for assessment, the word "None" should be entered in the money column, and the General Declaration should be signed*

SOURCE OF INCOME.	AMOUNT.		
	£	s.	d.
<b>FROM TRADE, PROFESSION, OR VOCATION, viz.—</b> The Trade, Profession, Employment, Vocation, or Business of carried on by at			
<b>FROM INTEREST OF MONEY AND ANNUITIES, NOT TAXED BY DEDUCTION, AND FROM DISCOUNTS, viz.—</b> Interest on Banking Accounts or Deposits .. .. . Discounts (including Discount or Profit on maturity or sale of Treasury Bills or War Expenditure Certificates) .. .. . Interest on Exchequer Bonds (where not taxed by deduction) .. .. . Small Dividends on Government and Corporation Securities (where not taxed by deduction) Other Interest and Annuities <i>not taxed by deduction</i> (the particular source to be stated), viz.:			
<b>FROM COLONIAL AND FOREIGN SECURITIES</b> (where United Kingdom Income Tax is not deducted on payment thereof), viz.— Interest arising from Securities of Indian or Colonial Governments, Corporations or Companies.. .. . Interest arising from Securities of Foreign Governments, Corporations or Companies .. Other Interest of Money, Annuities, or Annual Payments charged on any property out of the United Kingdom.. .. .			
<b>FROM COLONIAL AND FOREIGN POSSESSIONS, viz.—</b> Income arising from Stocks or Shares (where United Kingdom Income Tax is not deducted on payment thereof), or from Rents— In any of His Majesty's Dominions out of the United Kingdom .. .. . In Foreign Countries .. .. . Income arising from Other Colonial and Foreign Possessions (the particular source to be stated), viz.—			
<b>FROM PROPERTY OR PROFITS NOT FALLING UNDER ANY OF THE FOREGOING HEADS</b> and not charged under any other Schedule (the particular source to be stated), viz.—  the amount whereof is computed according to			
	<b>TOTAL</b> ..		
<i>Less: Amount claimed for Wear and Tear of Machinery and Plant, { which should not be deducted in arriving at the above figures {</i> .. .. .	..		
	<b>NET TOTAL</b> ..		

**General Declaration.**

I declare that in the foregoing statement I have given a full and true  
Return of the whole of the Income chargeable upon

under Schedule D of the Income Tax Acts, estimated to the best of my judgment and belief according to the  
directions and rules of the said Acts. I desire the assessment to be made by the

Given under my hand this

day of

19...

Signature.

Business Address.

*Note.*—A woman must  
state after her  
signature whether  
Married, Widowed,  
or Spinster.

**STATE WHETHER THE RETURN IS MADE—**

1. As precedent Acting Partner of a Firm;  
or 2. As Trustee, Agent, Receiver or Factor, and for whom;  
or 3. As the Officer of any Corporation, Company, or Society.







FORM No. 11.—PAGE 2.

**Section C.****STATEMENT OF UNTAXED INCOME FOR ASSESSMENT UNDER SCHEDULE D.**

*In cases where there is no untaxed income to be returned for assessment, the word "None" should be entered in the money column, and the General Declaration should be signed.*  
*Attention is directed to the note on page 1, as to the liability of a husband to include income of his wife.*

DESCRIPTION OF INCOME.	AMOUNT.	
<b>FROM TRADE, PROFESSION EMPLOYMENT or VOCATION, viz. :—</b>	£	s.
The Trade, Profession, or Business of carried on by at The Employment or Vocation of carried on by		
<b>FROM INTEREST, ANNUITIES, ANNUAL PAYMENTS AND DIVIDENDS, NOT TAXED BY DEDUCTION, AND FROM DISCOUNTS, viz. :—</b>		
Interest on Banking Accounts or Deposits		
Dividends or Interest on War Loan, National War Bonds and Exchequer Bonds (where not held in the form of "bearer bonds" or "registered coupon bonds")		
Dividends or Interest on <b>Post Office Issues</b> of Funding Loan, Victory Bonds, 5½% Exchequer Bonds, 5-15 year Treasury Bonds, 3½% Conversion Loan, or 5½% Treasury Bonds		
Small Dividends on other Government Securities and on Corporation Securities (where not taxed by deduction)		
Dividends on Stocks purchased and held through the Post Office Savings Bank		
Discounts, including Discount on Treasury Bills		
Other Interest, Annuities, Annual Payments and Dividends, <b>not taxed by deduction</b> (the particular source to be stated), viz. :—		
<b>FROM DOMINION AND FOREIGN SECURITIES</b> (where United Kingdom Income Tax is not deducted on payment thereof), viz. :—		
Interest arising from Securities of Governments, Corporations or Companies in any of His Majesty's Dominions out of the United Kingdom		
Interest arising from Securities of Foreign Governments Corporations or Companies		
Other Interest, Annuities, or Annual Payments, charged on any property out of the United Kingdom		
<b>FROM DOMINION AND FOREIGN POSSESSIONS, viz. :—</b>		
<b>Income arising from Stocks or Shares</b> (where United Kingdom Income Tax is not deducted on payment thereof), or <b>from Rents</b> :—		
In any of His Majesty's Dominions out of the United Kingdom		
In Foreign Countries		
Income arising from any other Possessions out of the United Kingdom (the particular source to be stated), viz.—		
<b>FROM PROPERTY OR PROFITS NOT FALLING UNDER ANY OF THE FOREGOING HEADS</b> and not charged under any other Schedule, viz.—		
Letting Furnished House at		
Other Sources (the particular source to be stated), viz.—		
the amount whereof is computed according to		
	TOTAL ..	
Less, in the case of a Trade, amount claimed for Wear and Tear of Machinery and Plant, which should not be deducted in arriving at the above figures }	.. ..	
	NET TOTAL ..	

**General Declaration.**

I declare that in the foregoing statement I have given a full and true Return of the whole of the income chargeable upon me under Schedule D, estimated to the best of my judgment and belief, according to the provisions of the Income Tax Act.

Acts. I desire to be assessed by the

Given under my hand this

day of

192..

Signature.

Business Address.

Private Residence.

*Note.*—A woman state after signature whether Married, Widowed, or Spinster.

**STATE WHETHER YOU MAKE THE RETURN—**

1. On your own behalf; or
2. As Trustee, Agent, Receiver, Factor, etc., and for whom. }

tion D.

# **RETURN OF TOTAL INCOME—TO BE MADE BY EVERY INDIVIDUAL CLAIMING ANY ALLOWANCE, DEDUCTION, OR REDUCED RATE OF TAX.**

(See Notes 11 to 13, 20 and 21.)

The Claimant must set forth EVERY source of his income with the amount derived from each source, whether derived elsewhere for assessment or not, whether tax has been paid on it or not, and notwithstanding that the income have been received "free of tax" or "tax compounded." If there is not sufficient room to set out the income in full hereon, particulars may be given on a separate sheet and the totals brought to this page. The word "None" should be written in any of the spaces (a) to (f) under the heading of which the claimant has no income.

No. 1.—Particulars of Income.	Amount.		
	£	s.	d.
From Trade, Profession, Employment, or Vocation—			
From any Public Office or any Employment not entered above. ( <i>Name and Address of Employer to be stated</i> )—			
From Property, including the annual value of any property in the claimant's own occupation belonging to himself or his wife ( <i>Precise addresses to be stated</i> )—			
From the Occupation of Land ( <i>Situation to be stated</i> )—			
From Dividends, Interest, Annuities, Dominion and Foreign Securities and Possessions, Pensions (other than Wounds, Disablement or Disability Pensions), and any income not entered elsewhere on this page, viz—			
(i) Income subjected to United Kingdom Income Tax before receipt, or received "tax compounded." ( <i>Full particulars to be given. If none, write "None"</i> )—			
(ii) Income not subjected to United Kingdom Income Tax before receipt. ( <i>Full particulars to be given. If none, write "None"</i> )—			
N.B.—In the case of Bank Interest, Dividends or Interest on War Loan Stock, National War Bonds and Exchequer Bonds, Dividends or Interest on Post Office issues of Government Securities, Discount on Treasury Bills, or other dividends or interest arising in the United Kingdom, not subjected to tax before receipt, the amounts to be entered are the amounts arising in the preceding year, viz., the year ended 5th April, 1922.			
Wife's Income, if not included above ( <i>giving full particulars and stating whether subjected to United Kingdom Income Tax before receipt or not. If included above, it should be so stated. If none, write "None"</i> )—			

Total ..

## No. 2.—Particulars of Charges on Income.

If there are no Charges write "None." It is not sufficient to leave this space blank.

(Life Assurance Premiums should not be entered here, but in Section K on page 4.)

	Annual amount payable (gross amount before deduction of tax).			
		£	s.	d.
and Rent on	payable to			
" "	"			
" "	"			
" "	"			
est on Mortgage or Loan—				
at % on	payable to			
" % "	"			
" % "	"			
ities, payable to				
nt Royalties, payable to				
r Annual Charges (if any), viz.	payable to			
	Total Charges ..			

Total Amount of Income FROM ALL SOURCES less Charges ..

I declare that the above statement contains a full, just, and true account and return of the Whole of my income from every source whatsoever for the year ending the 5th day of April, 19.., estimated according to the provisions of the Income Tax Acts, and I therefore claim the relief to which I am entitled in virtue of the facts stated.

Given under my hand this

day of

192..

*Note.*—A woman must state after her signature whether Married, Widow, or Spinster.

Signed

Private Residence

**CLAIM FOR DEDUCTIONS IN RESPECT OF PERSONAL ALLOWANCE (TO A MARRIED MAN), "HOUSEKEEPER," CHILDREN AND DEPENDENT RELATIVES, AND RELIEF IN RESPECT OF LIFE ASSURANCE PREMIUMS.**

**N.B.**—Section L must be completed in all cases where any relief is claimed on this page.

**Section E.**

If you are a **MARRIED MAN** and your wife is living with you, or is wholly maintained by you, give the following particulars.

Full Christian names of my wife, who is living }  
with me, or is wholly maintained by me }

**Section F.**

If you are a **WIDOWER** (or **WIDOW**) and (a) a female relative of yourself or of your deceased wife (or husband) resides with you for the purpose of having the charge and care of any child or adopted child of yours in respect of whom the deduction for children is granted, or (b) if no such relative is available, some other female person is employed by you for the like purpose, give the following particulars

Name of female relative resident with you for the purpose mentioned above, or of other female person employed by you for that purpose.

Whether she is "married," "widow," or "spinster." (If she is married, but living apart from her husband, you should state so.)

Relationship (if any) to yourself or to your deceased wife (or husband). If no relative is available, it should be so stated

Are you a widow or a widower?

Surname. Full Christian Names.

**Section G.**

If you are an **UNMARRIED PERSON**, and have living with you and maintain at your own expense either your mother (being a widow or living apart from her husband), or some other female relative, for the purpose of having the charge and care of any brother or sister of yours in respect of whom the deduction for children or adopted children is granted, give the following particulars.

Name of mother, or other female relative, living with and maintained by you for the purpose mentioned above.

Whether she is "married," "widow," or "spinster." (If she is married, but living apart from her husband, you should state so.)

Relationship to yourself.

Whether any other relative besides yourself contributes to her maintenance?

Surname. Full Christian Names.

**Section H.**

If you have any **CHILDREN**, step-children or adopted children living on 6th April, 1922, and under the age of 16 years on that date, or over that age and receiving full-time instruction at a university, college, school or other educational establishment, you should give the particulars required below in respect of such children or step-children, and should also complete the special form No. 11-- (to be obtained from the Inspector of Taxes if not already supplied) in respect of any such adopted children. deduction is due in respect of any child or adopted child who is entitled in his or her own right to an income which after excluding any income from a scholarship, bursary, or other similar educational endowment, exceeds £40 a year. If any child is a step child, you should state so. Adopted children should not be entered on this form.

Name of each child or step-child living on 6th April, 1922, and under the age of 16 years on that date, or over that age and receiving full-time instruction at an educational establishment.

Date of Birth.

Place of Birth.

Has the child any income in own right? If so, state annual amount, excluding scholarship income.

Name and address of educational establishment in the case of children over the age of 16 years on April, 1922.

Surname. Full Christian Names Dy Month Yr.

**tion J.** (I). If you maintain at your own expense (a) any **Relative** of yourself or of your wife (or husband) who is **incapacitated by old age or infirmity** from maintaining himself or herself, or (b) your or your wife's (or husband's) **widowed mother, whether incapacitated or not**, give the following particulars. No deduction is due under (a) or (b) if the income of the dependent relative exceeds £50 a year

Name of each such person maintained at your own expense.		Relationship to yourself or to your wife (or husband). If widowed mother state so	Date of Birth.			Annual Income of the Relative from all sources.	Nature of Infirmity, if any.	Where now residing.	Whether any other relative, besides yourself, contributes to the maintenance ?
name.	Full Christian Names.		Dy	Month	Yr.				

(II). If you maintain at your own expense your **Daughter** who is resident with you and upon whose services are compelled to depend by reason of old age or infirmity, give the following particulars.

Name of such daughter maintained at your own expense.		Whether she is "married," "widow," or "spinster." If she is married, but living apart from her husband, you should state so.)	Is she resident with you ?	If you depend on her services on account of	
name.	Full Christian Names.			old age, age to be stated here.	infirmity, nature of infirmity to be stated here

**tion K.** Give here a list of any **PREMIUMS FOR ASSURANCES** or contracts for deferred annuities, **ON THE LIFE OF YOURSELF OR OF YOUR WIFE** in respect of which you claim an allowance under the provisions referred to in Note 19. (The premiums must not be deducted in arriving at the income entered on page 2 or page 3.)

State whether Assurance or annuity is on life "Self" or of "Wife."	Name of Assurance Company or Friendly Society.	Date of Policy or Contract.	CAPITAL SUM PAYABLE AT DEATH —exclusive of any additional benefit by way of bonus or otherwise.	Amount of Premiums to be paid in the year ending 5th April 19...
				£                      s.

o CAPITAL Sum is payable at Death, particulars of the Policy should be stated.] TOTAL

**tion L.** **T. IS DECLARATION MUST BE COMPLETED IN ALL CASES WHERE ANY RELIEF IS CLAIMED ON THIS PAGE.**

I declare that all the particulars given by me above are truly and correctly stated to the best of judgment and belief, and I claim the relief to which I am entitled in virtue of the facts as so stated. I declare no other individual is entitled to any deduction for Income Tax in respect of any female relative in respect of whom I have claimed a deduction in Section F or G, or if any other individual is so entitled that such individual relinquished his or her claim to the deduction.

.....192.

.....Signature.

(7) £25 to a taxpayer who maintains a relative of his or of his wife, who by old age or infirmity is unable to maintain himself: in the case of a widowed mother incapacity or infirmity need not obtain (the maintained person's income must not exceed £50.)

(8) £25 to a taxpayer who is compelled by age or infirmity to depend upon the services of a daughter resident with him for this purpose.

**Forms.**—The forms now used for the return of income are No. 1 for Firms, Companies, Corporations, and other bodies of persons; and No. 11 for Individuals. The important parts of these forms are reproduced in the pages which follow.

**Exemption, Allowance and Relief in respect of Earned Income.**—The following are exempt from assessment for income tax—

- (1) The Crown.
- (2) Certain Buildings under Schedule A.
- (3) Registered Friendly Societies and Trade Unions.
- (4) Industrial and Co-operative Societies (but not exempt from Schedule A tax).
- (5) Trustees Savings Banks.
- (6) Colleges, Universities, Scientific Institutions.
- (7) Charitable Institutions (in so far as their income from Rents, Interest, and Dividends and profit from trading is applied to charitable purposes).

If any income is received less tax, repayment of the tax can therefore be claimed by the above.

*Total Exemption* may be claimed when the Income *from all sources* does not exceed £135 per annum (£150 if all earned income).

Exemption and allowances apply only to individuals, and not to limited or other companies, which must pay tax on their profits whatever the amount.

No Exemption, Allowance, Relief in respect of Earned Income, or Allowance for Life Assurance or for Children, is given unless the individual is resident in the United Kingdom, except in the case of persons who are or have been employed in the service of the Crown or of any missionary society abroad or of any of the Native States under the protectorate of the British Crown, or who are resident in the Isle of Man or Channel Islands, or who satisfy the Commissioners of Inland Revenue that they are resident abroad for the sake of health.



In the case of the above non-residents the allowances are limited. Tax is calculated on the whole income—British and foreign—and the taxpayer is charged with the same proportion of the total tax as his British income bears to his total income.

Where a person is in receipt of both earned and investment income, all allowances must be deducted from the *earned* portion. If this however is not large enough, the balance must then be deducted from the investment portion.

**Earned Income.**—This comprises salaries and wages of employees (whether the amount is *fixed* or arrived at by means of a percentage), pensions, etc., salaries from public office or employment, managing director's remuneration, profits from the occupation of farms, profits from trade or business, including partners' salaries and interest on their capital in the case of acting partners, etc. Where there are dormant or sleeping partners in a firm, the profits of such partners are regarded as *investment* income. The precedent acting partner of a firm has to make a declaration as to whether each partner is a "sleeping" or "acting" partner.

**Investment Income.**—This will comprise all income obtained without personal service or effort, such as Rents from the ownership of land, houses, etc., Dividends from investments, Interest on money lent, Profits from business or trade in the case of a dormant or sleeping partner.

When a private firm is turned into a Limited Liability Company, its profits, which have hitherto been regarded as *earned* income, become *investment* income taxable at the higher rate. Directors' Fees and Remuneration, however, are treated as earned income, and are subject to the 10 per cent. reduction.

**Super-Tax.**—Under the Finance Act, 1910, a super-tax of 6d. in the £ was imposed on the income of any individual if it exceeded £5,000, and the super-tax was payable on the amount by which the income exceeded £3,000. This tax is assessed and charged by the Special Commissioners.

Every person liable to super-tax must, under penalty, give notice to the Special Commissioners before 30th September in the year of assessment. And every person, when called upon to make a return of his total income for super-tax purposes, must, under penalty, make the return whether he is chargeable or not. Where a person fails to make a return, or makes an unsatisfactory return, the Special Commissioners may assess the amount of super-tax to the best of their



ability. Like the Income Tax, the rate of Super-tax has been increased; and, for the year 1922-23, incomes exceeding £2,500 are chargeable according to the following scale—

## SUPER-TAX.

Part of Income.	i.e., part between	Rate.
		s. d.
1st £2,000 of income . .	£0 and £2,000	NIL.
1st £500 above £2,000 . .	£2,001 and £2,500	1 6
2nd £500 above £2,000 . .	£2,501 and £3,000	2 0
£1,000 above £3,000 . .	£3,001 and £4,000	2 6
£1,000 above £4,000 . .	£4,001 and £5,000	3 0
£1,000 above £5,000 . .	£5,001 and £6,000	3 6
£1,000 above £6,000 . .	£6,001 and £7,000	4 0
£1,000 above £7,000 . .	£7,001 and £8,000	4 6
£12,000 above £8,000 . .	£8,001 to £20,000	5 0
£10,000 above £20,000 . .	£20,001 to £30,000	5 6
All above £30,000 . . .	£30,001 and upwards	6 0

For super-tax purposes the total income of an individual from all sources is taken to be his total statutory income for the *previous* year, estimated in the same manner as the total income from all sources is estimated for the purposes of exemption or abatement. The same rights of appeal and recovery of duty apply to super-tax as to the other portions of the income tax.

By the Income Tax Act, 1918, Section 5 (3), in estimating the income of the previous year for the purpose of super-tax—

(a) There shall be deducted in respect of any land on which income tax is charged upon the annual value estimated otherwise than in relation to profits (in addition to any other deduction) any sum by which the assessment is reduced for the purposes of collection or on which duty has been repaid under the provisions of this Act relating to the repayment of duty in respect of the cost of maintenance, repairs, insurance, and management; and

(b) there shall be deducted in the case of a individual in the service of the Crown abroad, any such sum as the Treasury may allow for expenses which in their opinion are necessarily incidental to the discharge of the functions of his office and for which an allowance has not already been made;

(c) any income which is chargeable with income tax by way of deduction shall be deemed to be income of the year in which it is receivable, and any deductions allowable on account of any annual sums paid out of the property or profits of the individual shall be allowed as deductions in respect of the year in which they are payable, notwithstanding that the income or the annual sums, as the case may be, accrued in whole or in part before that year.

**Private Limited Companies and Super-Tax.**—In accordance with the provisions of the Finance Act, 1922, if the Commissioners consider that any private limited company registered after 5th April, 1914, has not, within a reasonable time after the end of any period ending after 5th April 1922, distributed a reasonable portion of its profits, they may treat the undistributed profits as having been received by the individual members of the company. The directors of a company may make a statutory declaration, certified by the auditor—if a member of an incorporated society of accountants, stating the amount they propose to distribute and that the balance is a reasonable amount to retain, having regard to the requirements of the company. Unless they see reason to the contrary, the Commissioners will then take no further action in the matter.

The above provisions operate as from 1923-24.

**Variations in Method of Assessment under Schedule A.**—Coal, Iron, Lead, and Copper Mines are assessed on the annual value, which is the average profit for the preceding five years. Railways, Quarries, Gas and Water Works, Alum, Salt, and Iron Works, Bridges, Markets, Tolls, Fishings, Docks, and Canals are also assessed on the annual value, which, however, is the profit of the previous year.

**Adjustment of Accounts for Income Tax Assessment.**—There are two ways of arriving at the amount of profit for income tax purposes—

(1) By taking the net profit as per the Profit and Loss Account, adding back all those deductions not allowed, and deducting such items as have been already taxed or which are not taxable.

(2) By taking the gross profit as per the Trading Account and constructing a fresh Profit and Loss Account, adding only such other profits as are taxable, and deducting only those losses which are allowed.

**Example 1.**—From the following Profit and Loss Account of A. Smith, Fancy Goods Merchant, for the year ending 31st December, 1921, and the particulars given below, make up his Return for assessment for the year 1922-23.

## PROFIT AND LOSS ACCOUNT.

Dr.	For the year ending 31st Dec., 1921.				Cr.
To Salaries .. ..	385			By Gross Profit as per	
" Bad Debts .. ..	69			Trading A/c ..	2,124
" Bad Debts Re-				" Discounts Received ..	73
serve .. £175				" Dividends, less Tax ..	23
Less Old Re-				" Reserve for Discount	
serve .. 75				on Creditors ..	30
	100			" Profit on Sale of In-	
" Discounts allowed ..	95			vestments .. ..	60
" Reserve for Discount					
on Debtors .. ..	60				
" Ground Rent .. ..	20				
" Bank Interest and					
Charges .. ..	25				
" Subscriptions and Do-					
nations to Charities	10				
" Loss by Embezzlement	50				
" Income Tax Sch. A,					
at 6s. .. ..	30				
" Income Tax, Sch. D ..	27				
" Interest on Loan ..	25				
" Trade Expenses ..	136				
" Proprietor's Salary ..	250				
" Interest on Capital ..	100				
" Repairs (average £25)	30				
" Depreciation—					
Goodwill .. ..	30				
Lease .. ..	70				
Plant and Machinery	48				
" Fire Insurance ..	20				
" Office Expenses ..	45				
" Balance (Net Profit) ..	690				
	2,315				2,315

The assessable profits for 1919 and 1920 were £703 and £842 respectively. The surveyor makes an allowance of £20 for wear and tear of plant and machinery.

## First Way—

Dr.	PROFIT AND LOSS ADJUSTMENT ACCOUNT.			Cr.
To Deduction of Items—			By Net Profit as per	
(a) Already taxed			Profit and Loss A/c	690
Annual Value of			„ Deductions not al-	
Premises (30 × 240)	100		lowed added back—	
	72		Bad Debts Reserve	100
Dividends ..	28		Reserve for Discount	
(b) Not taxable:			on Debtors ..	60
Reserve for Dis-			Ground Rent ..	20
count on Credi-			Subscriptions and	
tors ..	30		Donations ..	10
Profit on Sale of			Income Tax ..	57
Investments ..	60		Interest on Loan ..	25
To Balance (assessable			Proprietor's Salary	250
profit) ..	1247		Interest on Capital	100
			Repairs (excess over	
			average) ..	5
			Depreciation ..	148
	1,465			1,465

## Second Way—

Dr.		PROFIT AND LOSS ADJUSTMENT ACCOUNT.				Cr.	
To Salaries .. ..	385			By Gross Profit as per			
„ Bad Debts .. ..	69			Trading Account ..	2,124		
„ Discounts allowed ..	95			„ Discounts received ..	73		
„ Bank Interest and							
Charges .. ..	25						
„ Loss by Embezzlement	50						
„ Trade Expenses ..	136						
„ Repairs .. ..	25						
„ Fire Insurance ..	20						
„ Office Expenses ..	45						
„ Annual Value of Pre-							
mises .. ..	100						
„ Assessable Profit ..	1247						
	<u>2,197</u>				<u>2,197</u>		

Assessable Profit, 1919 .. .. .	£703
„ „ 1920 .. .. .	£842
„ „ 1921 .. .. .	£1247
	<u>3,2792</u>
Average .. .. .	931
Less Allowance for Wear and Tear .. .. .	20
	<u>£911</u>

**Example 2.**—The Trading results of the XYZ Co., Ltd., as shown by their books, are :—1919, Profit £5,300 ; 1920, Loss £520 ; 1921, Profit £6,455. Before arriving at these figures the following items have been charged or credited in the accounts—

	1919.	1920.	1921.
Transfer to Reserve .. .. .	£250	£ —	£300
Bankers' Interest .. .. .	25	65	15
Royalties, less Tax .. .. .	40	40	40
Depreciation of Plant and Machinery ..	250	225	200
Written off Goodwill .. .. .	200	nil	300
Rent of Trade Premises .. .. .	375	375	375
Income Tax, Sch. D .. .. .	250	200	150
Dividends Received, less Tax .. .. .	125	125	125
Directors' Fees .. .. .	300	300	300
Transfer Fees Received .. .. .	50	50	50
Debenture Interest .. .. .	500	500	500
Sinking Fund for Repaying Debentures ..	200	200	200
Pension to late Secretary .. .. .	150	150	150

Make up the Company's Return for Assessment for 1922-23.

### INCOME TAX RETURN

For the year 1922-23.

	1919.	1920.	1921.
Profits as per Profit and Loss Account..	5,300	£ 520	£ 6,455
Loss as per Profit and Loss Account..			
Add deductions not allowed—			
Transfer to Reserve .. .. .	250	—	300
Royalties less Tax .. .. .	40	40	40
Depreciation of Plant .. .. .	250	225	200
Written off Goodwill .. .. .	200	—	300
Income Tax, Sch. D .. .. .	250	200	150
Debenture Interest .. .. .	500	500	500
Sinking Fund for Repaying Debentures	200	200	200
Pension to late Secretary .. ..	150	150	150
	7,140	1,315 520	8,295
Deduct Loss in '1920 .. .. .			
	7,140	795	8,295
Deduct Dividends (already taxed) ..	125	125	125
Adjusted Profits	7,015	670	8,170

Assessable Profit for 1922-23 = £15,855 ÷ 3 = £5,285, subject to claim for wear and tear.

**Example 3.**—The following is a Limited Company's Profit and Loss Account for the year ending 31st December, 1922—

Dr.	PROFIT AND LOSS ACCOUNT.		Cr.
To Salaries .. ..	665	By Gross Profit .. ..	6,977
„ Depreciation .. ..	232	„ Discounts .. ..	83
„ Rent .. ..	360	„ Bad Debts Reserve—	
„ Bad Debts .. ..	75	Old A/c .. £110	
„ Discounts .. ..	120	Less New A/c 100	
„ Income Tax, Sch. A..	36		10
„ „ Sch. D..	260	„ Transfer Fees.. ..	35
„ Debenture Interest,		„ Interest on Calls in	
less Tax .. ..	339	arrear .. ..	12
„ Directors' Fees .. ..	250		
„ Managing Director's			
Remuneration 10 %			
of Profits £4,780 .. ..	478		
„ Interim Dividend,			
less Tax .. ..	1,250		
„ Balance .. ..	3,052		
	7,117		7,117

The premises which the Company occupies are assessed under Schedule A at £480 net. The assessable profit for 1920





B. Black makes up his return for 1922-23 in April, 1922, and has to base it on the average of the three preceding years ending either on the 5th April, 1922, or prior to 5th April, 1922. He will therefore take the average of 1919, 1920, and 1921, as follows—

Assessable Profit, 1919	..	£7,200
" " 1920	..	£5,320
" " 1921	..	£4,886

$$\text{Average} = \frac{3)17,406}{3} = \text{£5,802}$$

#### RETURN OF TOTAL INCOME FROM ALL SOURCES

*For the year ending 5th April, 1923.*

	£
Average of Business Profits (1919, 1920, 1921)	5,802
Net Annual Value of Business Premises	200
" " House Property	420
Director's Fees	250
Wife's Income from Investments (£450 net)	600
	<hr/> 7,272
Less Income already Taxed (200 + 420 + 600)	1,220
	<hr/> £6,052

The taxpayer will claim the following deductions—

10% Earned Income Relief (limited to £200)	200
Marriage allowance	225

The net taxable income of £5,627 will be subject to tax as to £225 at 2s. 6d. in the £, and £5,402 at 5s. in the £, and against the total tax payable 5s. in the £ will be allowed in respect of the Insurance Premiums of £250 (assuming these were taken out before 22nd June, 1916).

The assessable income for super-tax purposes is the *statutory* income for the year *previous* to the year of assessment. The statutory income for the year 6th April, 1921-5th April, 1922, was based on the average of the three years ending 30th 31st December, 1920.

Assessable profits for 1918, 19, and 20 = £6,500 + £7,200 + £5,320 = £19,020. Average profit = £19,020 ÷ 3 = £6,340. (See next page.)

**Fictitious Amount Charged for Rent.**—Where a firm or company, in respect of its own premises, charges against the profits an assumed amount for rent, *e.g.*, a percentage on the cost or estimated value, such amount must be added back to the profits, and only the net assessment under Schedule A deducted.

**Interest on Loans, and Debenture Interest.**—If a trader has deducted tax at 5s. on any Interest on Loans, and is assessable on his business profits, as earned income, at say 2s. 6d. in the £, he will have to account to the Income Tax

### RETURN OF TOTAL INCOME FOR SUPER-TAX PURPOSES

*For the year ending 5th April, 1923.*

Schedule A—									
Annual Value of Business Premises	.	.	.	.	.	.	200		
Rents of House Property	.	.	.	.	.	.	420		
Schedule C—									
Wife's Income from Investments	.	.	.	.	.	.	600		
Schedule D—									
Average of Business Profits	.	.	.	.	.	.	6,340		
Schedule E—									
Director's Fees	.	.	.	.	.	.	250		
							7,810		
Less Statutory Allowance	.	.	.	.	.	.	2,000		
Assessment for Super-Tax, 1922-23	.	.	.	.	.	£	5,810		

Authorities for the difference in the tax on the Interest, *i.e.*, he would not be allowed to make a gain out of the Revenue. Again, if in any year he makes a statutory loss, he would still be assessed on any Interest on Loans he had paid less tax. Likewise a Limited Company would have to remit tax deducted on any Debenture Interest, even though for the year of assessment it makes a statutory loss.

**Employer's Contributions under the National Insurance Act, 1911.**—It was stated in the House of Commons that these would be allowed as a business expense.

**Wear and Tear, Obsolescence, Replacements.**—As previously mentioned, an allowance can be claimed for wear and tear of Plant and Machinery. This allowance does not apply to Buildings, Furniture, nor to Horses and Carts, Tools, Implements and Utensils, though in the latter cases the cost of replacement (not exceeding the average of three years) would be allowed as a deduction in the accounts before ascertaining the statutory profits. The allowance is calculated on the value of the Plant and Machinery at the commencement of the year, no allowance being made on additions during the year. Where, owing to obsolescence, Machinery has to be replaced by new, the difference between the book value of the old machinery and the amount obtained for it as "scrap" when sold, may be claimed as a deduction before arriving at the assessable profits. The amount allowed as a claim for wear and tear will depend on the nature of the Machinery, whether it is fast or slow running, and whether it is running

day and night or day only. Where renewals are charged to capital, and repairs to revenue, the claim for wear and tear will be allowed ; but if renewals as well as repairs are charged to revenue, no allowance will be made for wear and tear. In some cases the trader may derive more benefit by foregoing the claim for wear and tear in return for being allowed to charge against the profits all repairs, renewals and replacements of Plant and Machinery, more particularly where the replacements are heavy and of frequent occurrence. If depreciation has been written off at a different rate from that allowed, *i.e.*, at a higher or lower rate, wear and tear may be calculated on the capital value of the Plant and Machinery as it would have appeared had only the agreed rate been written off.

If any considerable number of persons engaged in any class of trade or business are dissatisfied with the amount of the allowance for wear and tear, application on their behalf may be made to the Board of Referees, who will determine the matter.

In the case of a trader owning Mills, Factories, or similar premises, it is now permissible to deduct the full annual value of such premises instead as heretofore the Schedule A Assessment (*i.e.*, five-sixths of the full annual value).

**Example.**—Suppose the following to represent the Plant and Machinery Account in the books of a trader, depreciation being written off at the rate of 10 per cent. per annum on the diminishing value.

Dr.				PLANT AND MACHINERY.				Cr.			
Year				Year							
1	To Cash .. ..	5,250		1	By Depreciation, 10%	555					
	„ Additions during Year .. ..	300			„ Balance c/d .. ..	4,995					
		5,550				5,550					
2	To Balance b/d .. ..	4,995		2	By Depreciation, 10 %	512					
	„ Additions .. ..	125			„ Balance c/d .. ..	4,608					
		5,120				5,120					
3	To Balance b/d .. ..	4,608		3	By Depreciation, 10 %	482					
	„ Additions .. ..	212			„ Balance c/d .. ..	4,338					
		4,820				4,820					
4	To Balance b/d .. ..	4,338									

Assuming 5 per cent. to be the rate allowed by the commissioners for wear and tear, a fresh statement would have to be prepared in order to arrive at the value of the Plant and Machinery for income tax purposes, thus—

Dr.		PLANT AND MACHINERY.				Cr.	
Year				Year			
1	To Cash .. ..	5,250		1	By Claim for Wear and Tear, 5 %, £5,250	262	10
	„ Additions .. ..	300			„ Balance c/d ..	5,237	10
		5,550				5,550	
2	To Balance b/d ..	5,287	10	2	By Claim for Wear and Tear 5 %, £5,287		
	„ Additions .. ..	125			10s. .. ..	264	7 6
		5,412	10		„ Balance c/d ..	5,148	2 6
						5,412	10
3	To Balance b/d ..	5,148	2 6	3	By Claim for Wear and Tear 5 % £5,148		
	„ Additions .. ..	212			2s. 6d. .. ..	257	8 2
		5,360	2 6		„ Balance c/d ..	5,102	14 4
						5,360	2 6
4	To Balance b/d ..	5,102	14 4				

Previously, the allowance made for wear and tear could only be taken advantage of to the extent of the profits available from which to deduct it. This is now changed, and the Act provides as follows—

No deduction for wear and tear or repayment on account of any such deduction shall be allowed in any year, if the deduction when added to the deductions allowed on that account in any previous years to the person by whom the concern is carried on, will make the aggregate amount of the deductions exceed the actual cost to that person of the machinery or plant, including in that actual cost any expenditure in the nature of capital expenditure on the machinery or plant by way of renewal, improvement, or reinstatement.

Where as respects any trade, manufacture, adventure or concern, full effect cannot be given to the deduction for wear and tear in any year owing to there being no profits or gains chargeable with income tax in that year, or owing to the profits or gains so chargeable being less than the deduction, the deduction or part of the deduction to which effect has not been given, as the case may be, shall, for the purpose of making the assessment for the following year, be added to the amount of the deduction for wear and tear for that year and deemed to be part of that deduction, or if there is no such deduction for that year, be deemed to be the deduction for that year, and so on for succeeding years.

**Example.**—Suppose the following to be the Profit and Loss figures as agreed with the surveyor—

	1919.	1920.	1921.
Profit ..	£12,500	—	£10,150
Loss ..	—	£7,050	—
£12,500 + £10,150 = £22,650.    £22,650 - £7,050 = £15,600.			
Average =	£15,600 ÷ 3	.. ..	£5,200
Deduct Claim for Wear and Tear, say, 5 %,	£120,000 =	£6,000	
Balance to be carried forward as a deduction from			
future assessable profits ..	.. ..	.. ..	£800

**Partners and Income Tax.**—Prior to 1907 partners could claim to be separately assessed, in order to obtain any relief, abatement or exemption to which they might individually be entitled. When Form No. 11 was received by the firm, the partners would simply write, in the space provided, "*wish to be separately assessed*," add their names and addresses, and return the form. A copy of the form would then be sent to each of the partners at their private address. Now, however, the assessment is made direct on the firm, and any allowances to which the partners may be entitled in respect of relief, abatement or exemption will be made off the firm's assessment. The partners' right to claim separate treatment is given them by Section 20 of the Finance Act, 1918, which reads as follows—

Where an individual carrying on or exercising any profession, trade or vocation in partnership with any other person makes any claim for exemption, relief, or abatement under the Income Tax Acts, the income of the individual from the partnership for the year to which the claim relates may be treated separately for the purpose of any such exemption, relief, or abatement, and if so treated shall be deemed to be the share to which he is entitled during the said year in the partnership profits, such profits being estimated according to the several rules and directions of those Acts.

It is not the amount of the firm's net profits that determines whether this discrimination shall be made: it is the total amount of the net income of each individual partner, including his share of the partnership profits, that determines whether that privilege shall apply or not.

**Example 1.**—Marshman, Jones, and Bayes are in partnership, sharing profits and losses equally. Their capitals are £10,000, £9,000 and £7,000 respectively. Marshman receives a salary of £600, Jones £500, and Bayes £400 per annum. By the partnership deed, the partners are entitled to interest on their capital at the rate of 5 per cent. per annum. The firm's assessable profits for the last three years, as agreed with the surveyor, were £10,150, £9,550, and £9,850. Prepare a statement showing how the income tax payable by the firm should be correctly allocated between the partners, who have no other income. What difference would it make if the amount of the tax, when paid, was merely debited to the Taxes Account and no further notice taken of it?

Average =  $(£10,150 + £9,550 + £9,850) \div 3 = £29,550 \div 3$ .



*Dr.* ADJUSTMENT ACCOUNT FOR INCOME TAX PURPOSES. *Cr.*

Year.	1	2	3	Year.	1	2	3
To Partners' Salaries	£ 1,500	£ 1,500	£ 1,500	By Assessable Profits	£ 10,150	£ 9,550	£ 9,850
„ Interest on Partners' Capital ..	1,300	1,300	1,300				
„ Balance .. ..	7,350	6,750	7,050				
	10,150	9,550	9,850		10,150	9,550	9,850

$£7,350 + £6,750 + £7,050 = £21,150$ . Average =  $£21,150 \div 3 = £7,050$ . Each partner's share =  $\frac{1}{3}$  of  $£7,050 = £2,350$ .

## STATEMENT ALLOCATING ASSESSABLE PROFIT BETWEEN PARTNERS.

	Total.	Marshman.	Jones.	Bayes.
Share of Assessable Profit divisible as Profits and Losses	£ 7,050	£ 2,350	£ 2,350	£ 2,350
Interest on Capital .. ..	1,300	500	450	350
Partners' Salaries .. ..	1,500	600	500	400
	9,850	3,450	3,300	3,100

from which each partner would claim the allowances to which he is entitled.

When the tax is paid, each partner's share should be charged direct from the Cash Book to his Drawing Account.

The result of charging the amount to the Taxes Account would be that the amount would be ultimately transferred to Profit and Loss and be divisible among the partners like other losses, *i.e.*, equally. Thus each partner would bear  $\frac{1}{3}$  of the tax. In consequence of this Marshman and Jones would be undertaxed, and Bayes would be overtaxed.

**Example 2.**—Shepherd, Lambert, and Bayes are in partnership sharing profits and losses three-sixths, two-sixths, and one-sixth respectively. Their capitals are as follows: Shepherd, £8,000; Lambert, £7,000; Bayes, £5,000. The partners receive a salary of £500, £400, and £300 respectively, and they are entitled to interest on their capitals at the rate of 5 per cent. per annum. Shepherd has a private income of £225 (gross) from investments. Lambert pays an annual life assurance premium of £25. Bayes pays a life assurance premium of £20 per annum, and has two children under sixteen years of age; his wife has a private income from



property of £120 per annum gross. The assessable profits of the business for the last three years, as agreed with the surveyor, are £5,540, £3,630, and £4,180. Make up the firm's assessment, and show the allocation of the tax between the partners.

$$£5,540 + £3,630 + £4,180 = £13,350.$$

$$\text{Average} = £13,350 \div 3 = £4,450.$$

Firm's assessment is therefore £4,450 less the allowances to be made to the partners individually.

*Dr.* ADJUSTMENT ACCOUNT FOR INCOME TAX PURPOSES. *Cr.*

Year.	1	2	3	Year.	1	2	3
To Partners' Salaries	£1,200	£1,200	£1,200	By Assessable Profits	£5,540	£3,630	£4,180
" Interest on Partners' Capital ..	1,000	1,000	1,000				
" Balance (Portion of Assessable Profit divisible in the same ratio as profits and losses)							
	3,340	1,430	1,980				
	5,540	3,630	4,180		5,540	3,630	4,180

$$\text{Average} = (£3,340 + £1,430 + £1,980) \div 3 = £2,250.$$

$$\text{Shepherd's share} = \frac{3}{8} \text{ of } £2,250 = £1,125.$$

$$\text{Lambert's} \quad \text{"} = \frac{2}{8} \quad \text{"} = £750.$$

$$\text{Bayes' } \quad \text{"} = \frac{1}{8} \quad \text{"} = £375.$$

STATEMENT ALLOCATING ASSESSABLE PROFIT BETWEEN PARTNERS.

	Total.	Shepherd.	Lambert.	Bayes.
Share of Assessable Profit divisible in the same ratio as profits and losses .. ..	£2,250	£1,125	£750	£375
Interest on Partners' Capital .. ..	1,000	400	350	250
Partners' Salaries .. ..	1,200	500	400	300
	4,450	2,025	1,500	925

The total income of the partners is as follows—

Shepherd: Share of business assessment	..	..	..	£2,025
Investments	..	..	..	225
				<u>£2,250</u>
Lambert: Share of business assessment	..	..	..	1,500
Bayes: Share of business assessment	..	..	..	925
Wife's Income from Investments	..	..	..	120
				<u>£1,045</u>

The firm's assessment will be .. .. .	£4,450	0	0
Less Allowances—			
Earned Income Relief:			
Shepherd .. ..	£200	0	0
Lambert .. ..	150	0	0
Bayes.. ..	92	10	0
	<u>£442</u>	10	0
Personal Allowances:			
Shepherd .. ..	£225	0	0
Lambert .. ..	225	0	0
Bayes .. ..	225	0	0
	<u>675</u>	0	0
Child's Allowances:			
Bayes.. ..	£63	0	0
	<u>£63</u>	0	0
		1,180	10 0
		<u>£3,269</u>	10 0

Tax will be payable as follows—

	£	s.	d.	=	£	s.	d.		£	s.	d.
Shepherd .. ..	2,025	0	0	=				} £225 @ 2/6 .	28	2	6
less Allowances:											
£200 + £225 ..	425	0	0	=	1,600	0	0	} £1,375 @ 5/- .	343	15	0
Lambert .. ..	1,500	0	0					} £225 @ 2/6 .	28	2	6
less allowances:											
£150 + £225 ..	375	0	0	=	1,125	0	0	} £900 @ 5/- .	225	0	0
Bayes .. ..	925	0	0					} £225 @ 2/6 .	28	2	6
less Allowances:											
£92 10s. + £225 + 63	380	10	0	=	544	10	0	} £319 10/- @ 5/- .	79	17	6
					<u>£3,269</u>	10	0		<u>£733</u>	0	0

Lambert and Bayes will claim tax at 3s. 9d. in the £ on their Insurance Premiums of £25 and £20, and this will be set against the total tax to be paid by the firm.

In each case the private income has been taxed at the source.

**Business Loss in Year of Assessment.**—Section 34 of the Act of 1918 enacts as follows—

1. Where any person shall sustain a Loss in any Trade, Manufacture, Adventure, or Concern, or Profession, Employment or Vocation carried on by him either solely or in partnership, or in the Occupation of Lands for the purpose of Husbandry only, it shall be lawful for him, upon giving notice in writing to the Surveyor of Taxes for the district, within six months after the year of assessment, to apply to the Commissioners for the general purposes of the Acts relating to Income Tax for an adjustment of his liability by reference to the loss and to the aggregate amount of his income for that year estimated according to the several rules and directions of the said Acts.

2. The said Commissioners shall, on proof to their satisfaction of the amount of the loss, and of the payment of Income Tax upon the aggregate amount of income, give a Certificate authorising repayment of so much of the sum paid for Income Tax as would represent the tax upon income equal to the amount of loss, and such Certificate may extend to give exemption or relief by way of abatement in accordance with the provisions of the said Acts. Upon the receipt of the Certificate, the Commissioners of Inland Revenue shall cause repayment to be made in conformity therewith.

3. If any person shall be guilty of any fraud or contrivance in making any application under this section, or in obtaining any such adjustment or Certificate as aforesaid, he shall forfeit the sum of Fifty Pounds, to be recoverable as a penalty imposed by virtue of the Taxes Management Act, 1880.

4. Where repayment has been made to a person in any year under the provisions of this section, he shall not be entitled to claim, or be allowed, a deduction on the assessment for a subsequent year by reference to the amount of loss in respect whereof such repayment has been obtained.

**Statement of Aggregate Amount of Income to be furnished in order to obtain the relief provided for by Section 34 of the Income Tax Act, 1918.**

Particulars of **Income**, from **every source**, whether **Taxed** or **not**, for the year from 5th April, 19.., to 5th of April, 19...

DESCRIPTION OF INCOME.	Annual Amount of Income.			Amount of Income Tax paid on, or deducted from each source of Income.		
	£	s.	d.	£	s.	d.
<hr/>						
Total amount of Income from all sources and of Income Tax paid thereon .. .. .	£					
Particulars of <b>any charges on Income</b> , such as <b>Ground Rent, Annual Interest, etc.</b> If there be no such charges, state "None."	Annual Amount.					
	£	s.	d.			
<hr/>						
Total Charges and Income Tax thereon.. ..	£					
Total amount of Income from all sources less Charges, and of Income Tax paid thereon ..	£					

**DECLARATION.**

I DECLARE that the above Statement contains a full, just, and true account of my Income from every source for the year ended 5th April, 19..

Signature .....

Address .....

Date ..... 19..

\* \* \* Vouchers must be produced in proof of payment of the Income Tax on the several sources of Income.

When making a claim under this section, the trader must forward (a) a copy of his Trading and Profit and Loss Account for the particular year, (b) an official form, as per facsimile shown, giving full particulars of his income, and showing that he has paid tax on each item. This section does not apply to "diminishing profits," but only to an actual "statutory loss." Its advantage is largely counterbalanced by the fact that such loss cannot be brought into average for succeeding years. Thus, supposing the three years' figures for income tax purposes were, (1) Profit £955, (2) Loss £550, (3) Profit £1,265, the assessments would be as follows:—

(a) If Claim is made and is allowed

	£
(1)	955
(2)	nil
(3)	1265
	<hr/>
3)	2220

Average = £740

(b) If no Claim is made.

	£
(1)	955
(3)	1265
	<hr/>
	2220
less Loss (2)	550
	<hr/>
3)	1670

Average = £556.13 4

Repayment of tax can only be claimed to the extent of the income upon which it has been paid. Thus, if tax has been paid on £650, and the statutory loss is £720, tax can be recovered only on £650; the balance of £70 will be taken into account when ascertaining the average for future years.

**Setting off the Losses of one Business against the Profits of Another.**—The Income Tax Act provides that a person carrying on, either solely or in partnership, two or more distinct trades, manufactures, adventures or concerns in the nature of trade, the profits of which are chargeable under the rules of Schedule D, may deduct or set against the profits acquired in one or more of the said concerns the excess of the loss sustained in any other of the said concerns over and above the profits thereof. This is a substantial concession, as may be seen from the following illustration.

**Example.**—A. Brown is in partnership as a coal merchant, and his share of the statutory profits, as agreed with the surveyor is £1,065. He also carries on business as a Colliery Agent, and makes a loss the statutory amount of which is agreed with the surveyor at £790. He has, in addition, an income (gross) from Investments amounting to £185. Prepare his claim for relief under the above section.

## RETURN OF TOTAL INCOME FROM ALL SOURCES.

Business Profit as Coal Merchant ..	1,065				
Less Business Loss as Colliery Agent ..	790				
				275	
Private Income from Investments ..				185	
Total Statutory Income .. ..				460	
				460	
Less Income already taxed .. ..				185	
Assessment .. .. .				<u>£275</u>	

If A. Brown had not been able to set off the loss of one business against the profit of the other, he would not have been entitled to any relief, and would consequently have been assessed on £1,065.

**Claim in respect of a New Business.**—The Income Tax Act, 1918, provides as follows—

Where a person charged or chargeable with income-tax in respect of any profession, trade, or vocation which has been set up or commenced within the period of three years upon the average of which the profits or gains are to be taken under the Income Tax Acts, or within the year of assessment, proves at the end of the year of assessment to the satisfaction of the Commissioners by whom the assessment has been or can be made that the actual profits or gains arising from the profession, trade, or vocation in the year of assessment fall short of the profits or gains as computed in accordance with those Acts, he shall be entitled to be charged on the actual amount of the profits or gains so arising instead of on the amount of the profits or gains so computed, and, if he has paid the full amount of the tax on the profits or gains so computed, be entitled to repayment of the amount overpaid.

**Example.**—Profits as estimated and taxed. 1st year, £750; 2nd year, £625; actual profits, £625 and £523 respectively. Show claim for repayment under above section—

(1) Profits as taxed .. ..	£750	
Actual profits .. ..	625	
	<u>        </u>	£125
(2) Profits as taxed .. ..	625	
Actual profits .. ..	523	
	<u>        </u>	102
Claim for Repayment of Tax on		<u>£227</u>

### Claim in respect of Discontinuance of Business.—

Where a profession, trade, or vocation is discontinued in any year, any person charged or chargeable with income tax in respect of that profession, trade, or vocation shall be entitled to be charged on the actual amount of the profits or gains arising from the profession, trade, or vocation in that year and shall also, if he proves, to the satisfaction of the Commissioners by whom the assessment has been made or could have been made, that the total amount of the income tax paid during the three previous years, in respect of that profession, trade, or vocation, exceeds the total amount which would have been paid if he had been assessed in each of those years on the actual amount of the profits or gains arising in respect of the profession, trade, or vocation, be entitled to repayment of the excess.

**Example.**—Average profits as taxed, (x) £950, (y) £750, (z) £600; actual profits, (x) £520, (y) £405, (z) £320. Show claim for repayment under above section.

(x) Average profits as taxed..	£950	
Actual profits .. ..	520	
	<hr/>	£430
(y) Average profits as taxed	750	
Actual profits .. ..	405	
	<hr/>	345
(z) Average profits as taxed	600	
Actual profits .. ..	320	
	<hr/>	280
Claim for Repayment of Tax on		<hr/> <hr/> £1055

**Share or Paper Profits.**—Where a Limited Company makes a “paper” profit which is converted into fully paid shares, the following is the method of assessment—

(a) If the shares are distributed, they must be valued at the market price or at a price to be agreed with the commissioners, and tax will be payable on the amount of this value over and above the cost to the parties receiving them.

(b) If the shares are not distributed but held by the Company, the assessment may remain in abeyance for three years, the Company to account for any sold during this time, and to have the balance valued at the end of the period. Tax will be payable on the excess of this value over the original cost.

**Change or Succession.**—By the Income Tax Act of 1918, if there is any change in a partnership owing to death, dissolution, or admission of new partner, or if any person succeeds to any trade, manufacture, adventure or concern, or profession, within the period of assessment, the profits and gains are to be computed and ascertained in the same manner as before,



*i.e.*, such change or succession will not affect the assessment, unless it can be proved, to the satisfaction of the commissioners, that the profits and gains of the business have fallen short or will fall short since such succession or change or by reason of it. Likewise, when a private firm is turned into a limited company, the profits of the latter will be computed and ascertained on the same basis as if the firm had not ceased to exist.

**Change in Rate of Tax.**—Where there has been an alteration in the rate of tax during the period in which the income has accrued, the following rules apply—

(1) On Dividends and Interest from the Public Funds, from Foreign or Colonial Government Loans and Securities or from Foreign and Colonial Companies, received in this country through an agent or bank, on Pensions and Salaries of officials, on Interest and Annuities paid by Municipal Corporations or Local Authorities to Creditors on Rates, tax must be deducted at the rate current at the time when such payment is actually made.

(2) On Annual Interest, Mortgage or Debenture Interest, Annual Value of Property, Ground Rent, etc., on Interest and Annuities payable out of profits or gains chargeable with income tax, on Dividends from Public Companies carrying on business in the United Kingdom, tax must be deducted at the rates ruling during the period in which such income has been accruing, *i.e.*, an apportionment must be made, and tax deducted from one portion at one rate, and, from the remaining portion, at the other rate.

**Certificate of Deduction of Tax.**—On page 487 is a facsimile of the form supplied by the Income Tax Authorities.

**INCORPORATED COMPANY.**—(See COMPANY.)

**INCREASE OF CAPITAL.**—(See COMPANY.)

**INDIRECT CHARGES.**

**INDIRECT EXPENSES.** } (See COST ACCOUNTS.)

**INDORSEE, INDORSER, INDORSEMENT.**—(See BILL OF EXCHANGE and CHEQUE.)

**INLAND BILL.**—(See BILL OF EXCHANGE.)

**INSCRIBED STOCK.**—This is Stock for which no actual certificates are issued to the holders. Their names, however, and the amount of Stock they hold are inscribed in a special register kept at the office or bank where the stock was issued. Such Stock can only be transferred by the holder, or his representative appointed by power of attorney, signing the



entry will be made crediting the Vendor with the total amount to be paid. An Asset Account will be debited with the *cash value* of the goods, and an Interest Suspense Account with the balance of the purchase money. At the end of each year, a portion of this Interest Account, *i.e.*, an amount equal to the interest on the unpaid balance of the purchase price, will be written off as a loss to Profit and Loss ; so that, at the end of the time, the Interest Suspense Account will be entirely extinguished. As each instalment is paid, Cash will be credited and the amount posted to the debit of the Vendor's Account.

**Vendor's Books.**—In the Vendor's books the goods will be credited to Sales Account through a special Journal, at their *cash value* ; the Interest will be credited to an Interest Suspense Account ; and the total of both goods and interest will be posted to the debit of the Purchaser's Account. As each instalment falls due, a portion of the Interest Account, *i.e.*, an amount equal to the interest on the unpaid balance of the selling price, will be transferred as a gain to Profit and Loss. At the end of the time, the Interest Suspense Account will be wholly extinguished. Each instalment, when received, will be debited in the Cash Book and posted to the credit of the Purchaser's Account, until, in course of time, the whole of the debt is liquidated.

**Example.**—A Colliery Company purchases on the instalment payment system a number of coal wagons, the cost to be spread over a period of five years, and to be payable by fixed annual instalments of £500. The cash value of the wagons is £2,164 14s. 10d., and the Wagon Company charge interest on yearly rests at the rate of 5 per cent. per annum. Allow for depreciation at the rate of 10 per cent. per annum, and write up the accounts in the books of both buyer and seller.

### In Buyer's Books.

JOURNAL.		Dr.			Cr.	
Year						
1	Wagon Account .. ..	2,164	14	10		
	Interest Suspense Account..	335	5	2		
	To Wagon Co. .. ..				2,500	
	for wagons purchased on instalment payment principle.					

## LEDGER.

<i>Dr.</i>				WAGON ACCOUNT.				<i>Cr.</i>			
Year	To Wagon Co. ..	2,164	14	10	Year	By Depreciation ..	216	9	6		
1					1	„ Balance c/d ..	1,948	5	4		
		2,164	14	10			2,164	14	10		
2	To Balance b/d ..	1,948	5	4	2	By Depreciation ..	194	16	6		
						„ Balance c/d ..	1,753	8	10		
		1,948	5	4			1,948	5	4		
3	To Balance b/d ..	1,753	8	10	3	By Depreciation ..	175	6	10		
						„ Balance c/d ..	1,578	8	10		
		1,753	8	10			1,578	8	10		
4	To Balance b/d ..	1,578	2		4	By Depreciation ..	157	16	2		
						„ Balance c/d ..	1,420	5	10		
		1,578	2				1,578	2			
5	To Balance b/d ..	1,420	5	10	5	By Depreciation ..	142	0	7		
						„ Balance c/d ..	1,278	5	3		
		1,420	5	10			1,420	5	10		
	To Balance b/d ..	1,278	5	3							

<i>Dr.</i>				WAGON COMPANY.				<i>Cr.</i>			
Year	To Cash ..	500			Year	By Sundries ..	2,500				
1	„ Balance c/d ..	2,000			1						
		2,500					2,500				
2	To Cash ..	500			2	By Balance b/d ..	2,000				
	„ Balance c/d ..	1,500									
		2,000					2,000				
3	To Cash ..	500			3	By Balance b/d ..	1,500				
	„ Balance c/d ..	1,000									
		1,500					1,500				
4	To Cash ..	500			4	By Balance b/d ..	1,000				
	„ Balance c/d ..	500									
		1,000					1,000				
5	To Cash ..	500			5	By Balance b/d ..	500				

<i>Dr.</i>				INTEREST SUSPENSE ACCOUNT.				<i>Cr.</i>			
Year				Year							
1	To Waggon Co. ..	335	5	2	1	By P. & L. (5 %, £2,104 14s. 10d.) ..	108	4	9		
					2	„ Balance c/d ..	227	0	5		
		335	5	2			335	5	2		
2	To Balance b/d ..	227	0	5	2	By P. & L. (5 %, £1,772 19s. 7d.) ..	88	12	11		
					3	„ Balance c/d ..	138	7	6		
		227	0	5			227	0	5		
3	To Balance b/d ..	138	7	6	3	By P. & L. (5 %, £1,361 12s. 6d.) ..	68	1	8		
					4	„ Balance c/d ..	70	5	10		
		138	7	6			138	7	6		
4	To Balance b/d ..	70	5	10	4	By P. & L. (5 %, £929 14s. 2d.) ..	46	9	8		
					5	„ Balance c/d ..	23	16	2		
		70	5	10			70	5	10		
5	To Balance b/d ..	23	16	2	5	By P. & L. (5 %, £476 3s. 10d.) ..	23	16	2		

## In Seller's Books.

JOURNAL.				<i>Dr.</i>				<i>Cr.</i>			
Year											
1	Colliery Company ..	2,500						2,164	14	10	
	To Sales Account ..							335	5	2	
	„ Interest Suspense A/c for wagons sold on instalment payment principle.										

## LEDGER.

<i>Dr.</i>				COLLIERY COMPANY.				<i>Cr.</i>			
Year				Year							
1	To Sundries ..	2,500		1	By Cash ..	500					
				2	„ Balance c/d ..	2,000					
		2,500				2,500					
2	To Balance b/d ..	2,000		2	By Cash ..	500					
				3	„ Balance c/d ..	1,500					
		2,000				2,000					
3	To Balance b/d ..	1,500		3	By Cash ..	500					
				4	„ Balance c/d ..	1,000					
		1,500				1,500					
4	To Balance b/d ..	1,000		4	By Cash ..	500					
				5	„ Balance c/d ..	500					
		1,000				1,000					
5	To Balance b/d ..	500		5	By Cash ..	500					

Dr.		INTEREST SUSPENSE ACCOUNT.						Cr.	
Year						Year			
1	To P. & L. (5 %, £2,164 14s. 10d.) ..	108	4	9		1	By Colliery Co. ..	335	5 2
	„ Balance c/d ..	227	0	5					
		335	5	2				335	5 2
2	To P. & L. (5 %, £1,772 19s. 7d.) ..	88	12	11		2	By Balance b/d ..	227	0 5
	„ Balance c/d ..	138	7	6					
		227	0	5				227	0 5
3	To P. & L. (5 %, £1,361 12s. 6d.) ..	68	1	8		3	By Balance b/d ..	138	7 6
	„ Balance c/d ..	70	5	10					
		138	7	6				138	7 6
4	To P. & L. (5 %, £929 14s. 2d.) ..	46	9	8		4	By Balance b/d ..	70	5 10
	„ Balance c/d ..	23	16	2					
		70	5	10				70	5 10
5	To P. & L. (5 %, £476 3s. 10d.) ..	23	16	2		5	By Balance b/d ..	23	16 2

The following Table shows at a glance the amount of Interest payable, and also the balance of the debt at the end of each year—

Year.	Amount of Principal.			Annual Interest at 5 %.			Total.			Instalment Payable.			Balance of Principal.		
1	2,164	14	10	108	4	9	2,272	19	7	500			1,772	19	7
2	1,772	19	7	88	12	11	1,861	12	6	500			1,361	12	6
3	1,361	12	6	68	1	8	1,429	14	2	500			929	14	2
4	929	14	2	46	9	8	976	3	10	500			476	3	10
5	476	3	10	23	16	2	500			500			—		
				335	5	2				2,500					

**INSURANCE.**—The forms required by the Assurance Companies Act, 1909, will be found under the heading of ASSURANCE, as will also some information respecting the Act



itself. The kinds of Insurance mentioned in the Act other than Life Assurance are—

**Fire Insurance Business ;** that is to say, the issue of, or the undertaking of liability under, policies of insurance against loss by or incidental to fire.

**Accident Insurance Business ;** that is to say, the issue of, or the undertaking of liability under, policies of insurance upon the happening of personal accidents, whether fatal or not, disease, or sickness, or any class of personal accidents, disease, or sickness.

**Employers' Liability Insurance Business ;** that is to say, the issue of, or the undertaking of liability under, policies insuring employers against liability to pay compensation or damages to workmen in their employment.

**Bond Investment Business ;** that is to say, the business of issuing bonds or endowment certificates by which the company, in return for subscriptions payable at periodical intervals of two months or less, contract to pay the bondholder a sum at a future date, and not being life assurance business as hereinbefore defined.

**Deposit of £20,000 Required.**—Section 2 of the Act provides—

(4) Where a Company carries on, or intends to carry on, assurance business of more than one class, a separate sum of twenty thousand pounds shall be deposited and kept deposited under this section as respects each class of business, and the deposit made in respect of any class of business in respect of which a separate assurance fund is required to be kept shall be deemed to form part of that fund, and all interest accruing due on any such deposit or the securities in which it is for the time being invested shall be carried by the Company to that fund.

Those Companies, however, which commenced business before the passing of this Act are exempt from these deposits except in the case of Life Assurance business.

**Separation of Funds.**—Section 3 of the Act requires—

(1) In the case of an assurance company transacting other business besides that of assurance or transacting more than one class of assurance business, a separate account shall be kept of all receipts in respect of the assurance business or of each class of assurance business, and the receipts in respect of the assurance business, or, in the case of a company carrying on more than one class of assurance business, of each class of business, shall be carried to and form a separate assurance fund with an appropriate name: Provided that nothing in this section shall require the investments of any such fund to be kept separate from the investments of any other fund.

(2) A fund of any particular class shall be as absolutely the security of the policy holders of that class as though it belonged to a company carrying on no other business than assurance business of that class,

and shall not be liable for any contracts of the company for which it would not have been liable had the business of the company been only that of assurance of that class, and shall not be applied, directly or indirectly, for any purposes other than those of the class of business to which the fund is applicable.

**Return of Deposits.—By Section 33 (e) of the Act—**

As soon as the employers' liability fund set apart and secured for the satisfaction of the claims of policy holders of that class amounts to forty thousand pounds, the Paymaster-General shall, if the company has made a deposit in respect of any other class of assurance business, return to the company the money deposited in respect of its employers' liability insurance business, and it shall not thereafter be necessary for the company to keep any sum deposited in respect of that business, so long as the sum deposited in respect of any other class of assurance business is kept deposited.

**By Section 34 (c)—**

As soon as the bond investment fund set apart and secured for the satisfaction of the claims of the policy holders of that class amounts to forty thousand pounds, the Paymaster-General shall, if the company has made a deposit in respect of any other class of assurance business, return to the company the money deposited in respect of its bond investment business, and it shall not thereafter be necessary for the company to keep any sum deposited in respect of that business, so long as the sum deposited in respect of any other class of business is kept deposited.

**Note re Employers' Liability Insurance.—By Section 33 (i) of the Act—**

If the company carries on employers' liability insurance business outside the United Kingdom, that business shall not be treated as part of the employers' liability insurance business carried on by the company for the purposes of this Act.

**Contributions to Fire Brigades.—**Under the L.C.C. regulations, Companies doing business in the metropolitan area have to contribute towards the cost of the Fire Brigades, according to the amounts they have insured in this area.

**Reserve for Unexpired Risks.—**It will be noticed in the printed statutory forms that a Reserve of so much per cent. of the Premium Income for the year is required in the case of Fire, Accident, and Employers' Liability Insurance. The exact amount of the percentage is a matter for the actuary to decide, although  $33\frac{1}{3}$  per cent. is generally considered to be the minimum Reserve necessary.

**Re-insurance and Guarantee Premiums.—**As in Life Assurance so also in other branches of Insurance business, there is a limit of risk which the Company will take on any one policy. In the statutory forms all premiums received and all claims paid must be stated at the net figure, *i.e.*, less *Re-insurances*.

**Days of Grace.**—These are extra days allowed, for the payment of premiums, beyond the actual due date of renewal. If a claim is received during this time it would be valid, and would be paid, less, however, the premium for renewal. The days of grace are usually, Life 30, Fire 15, and other departments 7 to 14 days according to the nature of the business.

**"Tariff" and "Non-tariff" Fire Offices.**—"Tariff" Offices are those which, among themselves, have fixed common minimum rates for the different classes of risk. "Non-tariff" Offices are those which are not bound by these rates.

**Example.**—From the under-mentioned particulars prepare the Revenue Accounts and Balance Sheet of the "Beta" Assurance Company, Ltd., as at 31st December, 19..—

LIFE DEPARTMENT.				£	s.	d.
Amount of Life Assurance Fund at 1st Jan., 19..				3,808,252	3	9
Premiums less Re-assurances—						
In United Kingdom..	..	..	..	521,650	17	8
Out of United Kingdom ..	..	..	..	33,271	10	8
Consideration for Annuities granted—						
In United Kingdom ..	..	..	..	74,812	10	4
Out of United Kingdom ..	..	..	..	65	12	2
Interest Dividends and Rents			£246,518	10	4	
Less Tax thereon <sup>1</sup> ..	..	..	12,622	8	6	
				233,896	1	10
Assignment and Other Fees ..	..	..	..	518	6	2
Profit on Realisation of Securities ..	..	..	..	405	2	8
Claims under Policies paid and outstanding (less Re-assurances)—						
By Death, in United Kingdom ..	..	..	..	185,624	7	3
" " out of United Kingdom ..	..	..	..	12,627	4	3
By Maturity, in United Kingdom ..	..	..	..	44,719	2	8
" " out of United Kingdom ..	..	..	..	8,463	2	6
Surrenders including surrenders of Bonus—						
In United Kingdom ..	..	..	..	51,427	8	6
Out of United Kingdom ..	..	..	..	345	9	2
Annuities in United Kingdom ..	..	..	..	18,671	4	3
" out of United Kingdom ..	..	..	..	32	19	7
Bonuses in Cash in United Kingdom ..	..	..	..	3,145	6	7
" " " out of United Kingdom ..	..	..	..	6	9	3
Return of Consideration for Annuities in United Kingdom ..				8,823	4	10
Bonuses in Reduction of Premiums in United Kingdom ..				417	6	5
Bonuses in Reduction of Premiums out of United Kingdom ..				16	11	2
Commission in United Kingdom ..	..	..	..	33,103	11	4
" out of United Kingdom ..	..	..	..	3,765	8	4
Expenses of Management ..	..	..	..	42,756	6	11
Amount of Life Assurance Fund at the end of the year						

<sup>1</sup> For purpose of convenience, tax is taken throughout as being 1s. 2d. in the £.

## FIRE DEPARTMENT.

Amount of Fire Insurance Fund 1st Jan., 19..—	£	s.	d.
Reserve for Unexpired Risks .. .. .	1,055,283	10	6
Additional Reserve .. .. .	1,642,785	5	3
Premiums less Re-insurances .. .. .	2,987,123	12	8
Claims paid and outstanding, less Re-insurances ..	1,643,927	2	10
Brokerage and Commission .. .. .	437,025	9	11
Contributions to Fire Brigades .. .. .	14,752	0	8
State Charges (Foreign) .. .. .	44,076	6	5
Expenses of Management .. .. .	427,618	10	9
Bad Debts .. .. .	417	12	8
Transfer to Profit and Loss .. .. .	150,000	0	0
Amount of Fire Insurance Fund, 31st Dec., 19.. —			
Reserve for Unexpired Risks 40 % of Premium			
Income for the year			
Additional Reserve .. .. .	1,772,525	16	1

## MARINE DEPARTMENT.

Amount of Marine Insurance Fund, 1st Jan., 19..	£	s.	d.
Premiums less Re-insurances.. .. .	417,052	8	7
Claims paid and outstanding, less Re-insurances ..	187,358	12	9
Expenses of Management .. .. .	36,850	17	5
Subscriptions to Lloyd's and Register Books ..	659	10	8
Underwriters' and Manager's Commission ..	8,974	7	6
Bad Debts .. .. .	215	12	9
Transfer to Profit and Loss .. .. .	25,000	0	0
Amount of Marine Insurance Fund at the end of the			
year .. .. .			

## ACCIDENT DEPARTMENT.

Amount of Fund at 1st Jan., 19.. —	£	s.	d.
Reserve for Unexpired Risks .. .. .	119,475	6	4
Total estimated liability in respect of Outstanding			
Claims .. .. .	38,752	18	6
Premiums after deduction of Re-insurances ..	376,987	12	4
Payments under Policies including medical and legal			
expenses in connection therewith, less Re-			
insurances .. .. .	159,946	6	9
Commission .. .. .	74,627	2	8
Expenses of Management .. .. .	65,648	6	11
Transfer to Profit and Loss .. .. .	70,000	0	0
Amount of Accident Insurance Fund, 31st Dec.—			
Reserve for Unexpired Risks, 33 $\frac{1}{3}$ % of the			
Premium Income for the year .. .. .			
Total estimated Liability in respect of Out-			
standing Claims .. .. .	39,331	10	0

**EMPLOYERS' LIABILITY DEPARTMENT.**

(Business transacted within the United Kingdom.)

Amount of Fund at beginning of the year—	£	s.	d.
Reserve for Unexpired Risks .. .. .	225,843	7	10
Total estimated liability in respect of Claims outstanding .. .. .	276,985	4	9
Premiums less Re-insurances .. .. .	623,045	11	8
Interest, Dividends and Rents .. .. .	£20,725	4	6
Less Income Tax .. .. .	1,208	19	5
	19,516	5	1
Payments under Policies including medical and legal expenses in connection therewith, less Re-insurances .. .. .	396,425	12	10
Commission .. .. .	82,396	11	4
Expenses of Management .. .. .	105,837	4	9
Transfer to Profit and Loss .. .. .	26,000	0	0
Amount of Employers' Liability Insurance Fund at the end of the year—			
Reserve for Unexpired Risks, 40 % of the Premium Income for the year .. .. .			
Total estimated liability in respect of Outstanding Claims .. .. .	285,512	15	9

**BOND INVESTMENT AND ENDOWMENT CERTIFICATE DEPARTMENT.**

Amount of Fund at 1st Jan., 19....	£	s.	d.
Additional Reserve .. .. .	225,072	10	11
Premiums less Re-insurances .. .. .	247,962	4	6
Interest, Dividends, and Rents .. .. .	585,203	18	6
Less Income Tax .. .. .	£36,417	10	0
	2,124	7	1
	34,293	2	11
Claims under Bonds and Certificates paid and outstanding .. .. .	376,241	10	8
Commission .. .. .	86,462	1	9
Expenses of Management .. .. .	134,623	10	6
Amount of Bond Investment and Endowment Certificate Fund at end of year .. .. .	236,798	10	2
Additional Reserve .. .. .	258,406	3	9

**LEASEHOLD REDEMPTION AND SINKING FUND DEPARTMENT.**

Amount of Fund at 1st Jan., 19..	£	s.	d.
Premiums .. .. .	175,936	4	8
Consideration for Annuities Certain .. .. .	38,560	12	2
Interest, Dividends and Rents .. .. .	220	0	0
Less Income Tax .. .. .	£8,672	12	9
	505	18	1
	8,166	14	8
Fines and Fees .. .. .	7	6	0
Policies matured .. .. .	2,438	13	11
Commission .. .. .	721	2	9
Annuities Certain .. .. .	238	5	7
Surrenders .. .. .	810	6	5
Expenses of Management .. .. .	75	10	2
Transfer to Profit and Loss .. .. .	20,000	0	0
Amount of Fund at end of the year .. .. .			



## GENERAL INSURANCE DEPARTMENT.

(Embracing Miscellaneous Business, including Employers' Liability Insurance abroad.)

	£	s.	d.
Amount of Fund at 1st Jan., 19.. .. .	643,512	12	6
Premiums less Re-insurances .. .. .	1,475,708	5	10
Claims paid and outstanding less Re-insurances ..	812,976	8	8
Commission .. .. .	285,431	7	2
Expenses of Management .. .. .	275,023	14	11
Bad Debts .. .. .	418	5	2
Transfer to Profit and Loss .. .. .	50,000	0	0
Amount of Fund at end of year .. .. .			

## PROFIT AND LOSS ACCOUNT.

	£	s.	d.
Balance of last year's account .. .. .	175,829	12	4
Interest and Dividends not carried to other Accounts .. .. .	£256,421	10	8
Less Income Tax .. .. .	10,685	12	7
	245,735	18	1

## Transfers from Other Departments

Transfer and Other Fees .. .. .	625	4	2
Dividend and Bonus, 30th April, £185,000, less tax at 1s. 2d.			
Dividend and Bonus, 30th Sept., £185,000, less tax at 1s. 2d.			
Income Tax on profits, paid and outstanding ..	34,261	9	8
Repairs and Renewals .. .. .	8,421	6	2
Depreciation of Furniture and Fittings .. .. .	10,000	0	0
Amount written off Premises (Freehold and Leasehold)	20,000	0	0
Guarantee and Pension Fund (transfer) .. .. .	50,000	0	0
Provision for Bonus to Staff, etc. .. .. .	27,520	10	6
Amount written off Investments .. .. .	50,000	0	0
Balance carried to next year's account .. .. .			

## LIABILITIES.

	£	s.	d.
Shareholders' Capital (100,000 Shares of £10 each, £5 per share paid up) .. .. .	500,000	0	0
The various Departmental Funds .. .. .			
Investment Reserve Fund .. .. .	150,625	6	3
Guarantee and Pension Fund (including transfer from Profit and Loss Account) .. .. .	125,896	4	8
Profit and Loss Account balance			
Claims Admitted or Intimated but not paid—			
Life Dept. .. .. .	183,902	5	6
Fire Dept. .. .. .	255,064	2	3
Accident Dept. .. .. .	15,435	3	9
Employers' Liability Dept. .. .. .	104,695	6	7
Bond Investment Dept. .. .. .	96,021	5	6
Marine Dept. .. .. .	73,826	5	2
Leasehold Redemption Dept. .. .. .	64,718	3	4
General Insurance Dept. .. .. .	50,402	4	5
Bills Payable .. .. .	34,781	6	6
Amounts due to Agents and Others .. .. .	75,028	3	11
Amounts due to Other Companies .. .. .	213,729	8	3
Perpetual Premiums and Fire Deposits .. .. .	22,634	2	9
Unclaimed Dividends .. .. .	375	5	8



## ASSETS.

	£	s.	d.
Mortgages on Property in United Kingdom ..	2,545,627	8	5
"      "      "      out of "      "      " ..	286,513	6	8
Mortgages on Rates under Acts of Parliament ..	16,427	3	4
Loans on Company's Policies within their surrender value .. .. .	25,206	4	6
Loans on Personal Security .. .. .	101,435	18	6
Investments (including those deposited as security for Policy Holders)—			
Deposit with the High Court, £25,000 Consols ..	20,000	0	0
British Government Securities .. .. .	615,592	1	3
Municipal and County Securities in United Kingdom .. .. .	5,431	2	6
Indian and Colonial Government Securities ..	720,752	10	7
Foreign Government Securities .. .. .	620,675	3	8
Foreign Provincial Securities .. .. .	10,620	2	4
Railway and other Debentures and Debenture Stock—home and foreign .. .. .	2,080,473	5	6
Railway and other Preference and Guaranteed Stocks .. .. .	316,527	3	2
Railway Ordinary Stocks .. .. .	295,436	1	9
Freehold Premises, etc., at home and abroad (less Depreciation) .. .. .	1,726,785	6	6
Leasehold Premises, etc. (less Depreciation) ..	313,426	2	8
Freehold Ground Rents .. .. .	115,350	4	6
Branch and Agency Balances .. .. .	865,973	2	5
Amounts due by other Companies .. .. .	316,425	4	9
Outstanding Premiums .. .. .	158,789	17	7
Outstanding Interest, Dividends, and Rents ..	18,543	2	10
Bills Receivable .. .. .	52,641	3	6
Stamps in hand .. .. .	650	17	11
Cash on Deposit .. .. .	660,982	10	7
Cash in hand and on Current Account .. .. .	620,705	8	11





## MARINE DEPARTMENT.

## REVENUE ACCOUNT

FOR THE YEAR ENDING 31st DEC., 19..

Dr.

Cr.

To Amount of Marine Insurance Fund at beginning of the year	856,081	13	9	By Claims paid and outstanding, after deduction of Re-insurances	187,358	12	9
" Premiums, after deduction of Re-insurances, discounts, and returns .. .. .	417,052	8	7	" Expenses of Management ..	36,850	17	5
				" Subscriptions to Lloyd's and Register Books.. ..	659	10	8
				" Underwriters' and Manager's Commission .. ..	8,974	7	6
				" Bad Debts.. ..	215	12	9
				" Transfer to Profit and Loss ..	25,000		
				" Amount of Marine Insurance Fund at end of the year ..	1,014,075	1	3
£	1,273,134	2	4	£	1,273,134	2	4







## BOND INVESTMENT AND ENDOWMENT CERTIFICATE DEPARTMENT.

## REVENUE ACCOUNT

FOR THE YEAR ENDING 31ST DEC., 19..

<i>D<sup>r</sup></i>	FOR THE YEAR ENDING 31ST DEC., 19..				<i>Cr.</i>
To Amount of Bond Investment and Endowment Certificate Fund at the beginning of year	£225,072	10	11		
Additional Re-serve	247,962	4	6		
Premiums less Re-insurances					
Interest, Dividends and Rents	£36,417	10	0		
Less Income Tax	2,124	7	1		
	473,034	15	5		
	585,203	18	6		
	34,293	2	11		
	1,092,531	16	10		
					£
By Claims under Bonds and Certificates paid and outstanding					
Commission					
Expenses of Management					
Amount of Bond Investment and Endowment Certificate Fund at end of the year	£236,798	10	2		
Additional Reserve	258,406	3	9		
	495,204	13	11		
	1,092,531	16	10		
					£

## REVENUE ACCOUNT

FOR THE YEAR ENDING 31ST DEC., 19..

<i>Dr.</i>					<i>Cr.</i>
To Amount of Fund at the beginning of the year .. .. .	175,936	4	8	By Policies matured .. .. .	2,438
" Premiums .. .. .	38,560	12	2	" Commission .. .. .	721
" Consideration for Annuities Certain .. .. .	220			" Annuities Certain.. .. .	238
" Interest, Dividends and Rents £8,672 12 9				" Surrenders .. .. .	810
Less Income Tax 505 18 1				" Expenses of Management .. .. .	75
" Fines and Fees .. .. .	8,166	14	8	" Transfer to Profit and Loss .. .. .	20,000
	7	6		" Amount of Fund at the end of the year .. .. .	198,606
	222,890	17	6		
					222,890

505

## DICTIONARY OF BOOK-KEEPING

## GENERAL INSURANCE DEPARTMENT.

(Embracing miscellaneous business, including Employers' Liability Insurance abroad.)

## REVENUE ACCOUNT

FOR THE YEAR ENDING 31ST DEC., 19..

<i>Dr.</i>					<i>Cr.</i>
To Amount of General Insurance Fund at the beginning of the year .. .. .	643,512	12	6	By Claims paid and outstanding after deduction of Re-insurances Commission .. .. .	812,976
" Premiums after deduction of Re-insurances .. .. .	1,475,708	5	10	" Expenses of Management .. .. .	285,431
				" Bad Debts .. .. .	275,023
				" Transfer to Profit and Loss .. .. .	418
				" Amount of General Insurance Fund at the end of the year .. .. .	50,000
					695,371
					2,119,220

[INS]

[INS]

## PROFIT AND LOSS ACCOUNT.

FOR THE YEAR ENDING 31ST DEC., 19..

Cr.

Dr.

To Balance of last year's account ..	175,829	12	4	By Dividend and Bonus, 30th April £185,000 0 0			
" Interest and Dividends not carried to other Accounts £256,421 10 8				" Dividend and Bonus, 30th Sept. 185,000 0 0			
Less Income Tax 10,685 12 7	245,735	18	1	Less Income Tax 370,000 0 0	348,416	13	4
Transfer from Fire Department 150,000	25,000			Income Tax on Profits paid and outstanding .. ..	34,261	9	8
" " Marine 70,000	26,000			" Repairs and Renewals .. ..	8,421	6	2
" " Accident ..	20,000			" Depreciation of Furniture and Fittings .. ..	10,000		
" " Employers' Liability Dept. ..	50,000			Amount written off Freehold and Leasehold Premises .. ..	20,000		
" " Leasehold Redemption Dept. 625		4	2	Guarantee and Pension Fund ..	50,000		
" " General Insurance Dept. .. ..				Provision for Bonus to Staff, etc.	27,520	10	6
" Transfer and other Fees ..				Amount written off Investments	50,000		
				Balance carried to Next Year's Account as per Balance Sheet	214,570	14	11
£	763,190	14	7	£	763,190	14	7

## BALANCE SHEET

AS AT 31ST DEC., 19..

<i>Liabilities.</i>				<i>Assets.</i>			
Shareholders' Capital—				Mortgages on Property in			
100,000 Shares of £10				United Kingdom ..	2,545,627	8	5
each, £5 per share				Mortgages on Property			
paid up .. ..	500,000			out of United King-			
Life Assurance Fund ..	4,258,927	2	3	dom .. ..	286,513	6	8
Fire Insurance Fund ..	2,967,375	5	2	Mortgages on Rates under			
Accident Insurance Fund	164,994	0	10	Acts of Parliament..	16,427	3	4
Employers' Liability In-				Loans on Company's Po-			
surance Fund ..	534,731	0	5	licies within their			
Bond Investment Fund..	495,204	13	11	Surrender Value ..	25,206	4	6
Marine Insurance Fund..	1,014,075	1	3	Loans on Personal Se-			
Leasehold Redemption				curity .. ..	101,435	18	6
Insurance Fund ..	198,606	18	8	Investments (including			
General Insurance Fund	695,371	2	5	those deposited as			
Profit and Loss Account	214,570	14	11	security for policy-			
Investment Reserve Fund	150,625	6	3	holders)—			
Guarantee and Pension				Deposit with the High			
Fund .. ..	125,896	4	8	Court £25,000 Con-			
				sols .. ..	20,000		
Total Funds ..	11,320,377	10	9	British Government Se-			
Claims admitted or inti-				curities .. ..	615,592	1	3
mated but not paid—				Municipal and County			
Life .. £183,902	5	6		Securities in the			
Fire .. 255,064	2	3		United Kingdom ..	5,431	2	6
Accident 15,435	3	9		Indian and Colonial			
Employers' Liability	104,695	6	7	Government Securi-			
Bond In-				ties .. ..	720,712	10	7
vestment 96,021	5	6		Foreign Government			
Marine 73,826	5	2		Securities .. ..	620,675	3	8
Leasehold				Foreign Provincial Se-			
Redemp-				curities .. ..	10,620	2	4
tion 64,718	3	4		Railway and other De-			
General 50,402	4	5		bentures and Deben-			
				ture Stock — home			
				and foreign ..	2,080,473	5	6
Bills Payable .. ..	844,064	16	6	Railway and other Pre-			
Amounts due to Agents	34,781	6	6	ference and Guarant-			
and others .. ..	75,028	3	11	eed Stocks .. ..	316,527	3	2
Amounts due to Other				Railway Ordinary			
Companies .. ..	213,729	8	3	Stocks .. ..	295,436	1	9
Perpetual Premiums and				Freehold Premises at			
Fire Deposits ..	22,634	2	9	home and abroad ..	1,726,785	6	6
Unclaimed Dividends ..	375	5	8	Leasehold Premises ..	313,426	2	8
				Freehold Ground Rents	115,350	4	6
				Branch and Agency Bal-			
				ances .. ..	865,973	2	5
				Amounts due by Other			
				Companies .. ..	316,425	4	9
				Outstanding Premiums..	158,789	17	7
				Outstanding Interest, Di-			
				vidends and Rents..	18,543	2	10
				Bills Receivable ..	52,641	3	
				Stamps in hand ..	650	17	11
				Cash on			
				Deposit £660,982	10	7	
				Cash in			
				hand and			
				on Cur-			
				rent A/c 620,705	8	11	
					1,281,687	19	6
£	12,510,990	14	4	£	12,510,990	14	4

**INSURANCE (HEALTH AND UNEMPLOYMENT) DEDUCTIONS.**—The National Health Insurance Acts and the Unemployment Act provide for a scheme of benefits to be paid to employees who are unable to follow their employment owing to ill-health, or who are unemployed. Those insured are all persons (subject to certain exceptions) 16 years of age and upwards employed at a rate of remuneration not exceeding £250 in the United Kingdom. Contributions are paid by the State, the employer, and the employed, by means of stamps affixed on cards.

The employer is liable in the first instance to pay both the contributions payable by himself and also the contributions payable by the employee, but he has the right to recover the amount payable by the employee by way of deduction from the wages. As regards the book-keeping, the Wages Book should include the particulars shown in the following ruling—

	Gross Amount Due.			WORKERS' CONTRIBUTIONS.		Net Amount Due.			EMPLOYERS' CONTRIBUTIONS.	
				Health.	Unemp't				Health.	Unemp't
	£	s.	d.	s.	d.	£	s.	d.	s.	d.
J. Johnson . . .	4	8	6	5	9	4	7	4	5	10
W. Smith . . .	3	18	6	5	9	3	17	4	5	10
R. Robinson (Miss) .	3	10	—	4	7	3	9	1	5	8
W. Williams ( „ ) .	2	15	—	4	7	2	14	1	5	8
H. Jones (boy) . .	1	5	—	5	4½	1	4	2½	5	5
T. Read (girl) . .	1	5	—	4	4	1	4	4	5	4½
	17	2	—	2	3	16	16	4½	2	6
					3				3	9½

The gross amount of wages paid is debited to Wages Account. The worker's contribution is deducted by the employer when the wages are paid.

The amount paid out by the employer himself as his contribution is debited to an Unemployed and Health Insurance Account, and at the end of the financial period the total may be transferred to the Wages Account, because the extra cost of insurance may be regarded as an indirect increase in the wages bill, or direct to the Profit and Loss Account.

Another method in use, particularly in large concerns, is for the stamps to be bought in quantity, and the cost debited to Unemployed and Health Insurance Account. The wages are charged each week to Wages Account, and at the end of a period an adjustment is made by debiting Wages Account with the total of the workers' contributions, and crediting the Unemployed and Health Insurance Account. The amount still standing to the debit of the last-mentioned account represents the employer's contribution and is debited to Profit and Loss Account.

**INSURANCE POLICY METHOD.**—(See DEPRECIATION.)

**INTEREST AND DISCOUNT ACCOUNT.**—This is an account containing all items of Interest and Discount, whatever the nature of the transactions. It is not used so much as formerly, the tendency now being to keep a separate account for Interest and also for Discount. The Interest Account itself is generally divided into two accounts, in order to show the actual gain and the actual loss by Interest transactions—

**Interest Allowed (or Paid) Account**, which contains all items of Interest paid on overdue accounts, on loans, on bank overdraft or current account, renewing bills, etc.

**Interest Received Account**, which contains all items of Interest charged on overdue accounts, on loans, on current account, renewing bills, etc.

**INTEREST (CONTINENTAL).**—(See ACCOUNT CURRENT.)

**INTEREST IN EXPECTANCY.**—An interest, in land or an estate, which will fall into a person's possession at some future time. For Estate Duty purposes, this expression covers an estate in remainder or reversion, and every other future interest, whether vested or contingent, but does not include reversions expectant upon the determination of leases. Estate Duty may be paid either with the duty on the rest of the estate, or when the interest falls into possession.

**INTEREST ON ACCOUNTS CURRENT.**—(See ACCOUNT CURRENT.)

**INTEREST ON BANK OVERDRAFT.**—This would appear in the Pass Book, and would necessitate an entry on the credit side of the Cash Book, thus—

*By Interest (on Overdraft)*

which would be posted to the debit of the Interest Paid Account.

**INTEREST ON CALLS.**—Interest is generally allowed on Calls Paid in Advance and charged on Calls in Arrear. The following Journal entry is necessary—

Interest on Calls in Advance	Dr.
To Shareholder	Cr.
or	
Shareholder	Dr.
To Interest on Calls in Arrear	Cr.

It necessitates the opening of an account in the General Ledger for the Shareholders concerned, in cases where the Share Ledger has no columns for Interest. But in other



cases, where the Share Ledger Accounts are in two parts, a Cash Account and a Share Account, the Interest can be shown in the Share Ledger itself, being posted thereto from a memorandum Interest on Calls Book. The Journal entry would then be—

Interest on Calls in Advance	Dr.
To Outstanding Interest Payable	Cr.

(If paid on the due date, then, on Cr. side of Cash Book,  
By *Interest on Calls in Advance*.)

or

Outstanding Interest Receivable	Dr.
To Interest on Calls in Arrear	Cr.

the Outstanding Interest appearing on the Balance Sheet and the other Interest in the Profit and Loss Account.

**INTEREST ON CAPITAL.**—The Journal entry for allowing Interest on Capital is as follows—

Interest on Capital	Dr.
To Capital	Cr.

or, if there are partners—

Interest on Capital	Dr.
To Brown Capital Account	Cr.
„ Jones „ „	Cr.

This Interest, being a loss to the business, must, in accordance with the rules for Journalising, be debited. The reason for charging Interest on Capital is explained under Partnership Accounts.

**INTEREST ON CAPITAL PAID OUT OF CAPITAL.**—Section 91 of the Companies Consolidation Act, 1908, enacts as follows—

Where any shares of a company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a lengthened period, the company may pay interest on so much of that share capital as is for the time being paid up for the period and subject to the conditions and restrictions in this section mentioned, and may charge the same to capital as part of the cost of construction of the work or building, or the provision of plant—

Provided that—

- (1) No such payment shall be made unless the same is authorised by the articles or by special resolution :
- (2) No such payment, whether authorised by the articles or by special resolution, shall be made without the previous sanction of the Board of Trade :
- (3) Before sanctioning any such payment the Board of Trade may, at the expense of the company, appoint a person to inquire and report to them as to the circumstances of the case, and may, before making the appointment, require the company to give security for the payment of the costs of the inquiry :

- (4) The payment shall be made only for such period as may be determined by the Board of Trade ; and such period shall in no case extend beyond the close of the half-year next after the half-year during which the works or buildings have been actually completed or the plant provided :
- (5) The rate of interest shall in no case exceed 4 per cent. per annum or such lower rate as may for the time being be prescribed by Order in Council :
- (6) The payment of the interest shall not operate as a reduction of the amount paid up on the shares in respect of which it is paid :
- (7) The accounts of the company shall show the share capital on which, and the rate at which, interest has been paid out of capital during the period to which the accounts relate :
- (8) Nothing in this section shall affect any company to which the Indian Railways Act, 1894, as amended by any subsequent enactment, applies.

**INTEREST ON CURRENT ACCOUNT.**—(See **BANK CURRENT ACCOUNT.**)

**INTEREST ON DEBENTURES.**—(See **DEBENTURE INTEREST.**)

**INTEREST ON DEPOSIT ACCOUNT.**—(See **BANK DEPOSIT ACCOUNT.**)

**INTEREST ON DRAWINGS.**—The necessity for charging Interest on Partners' Drawings is explained under Partnership Accounts. The Journal entry required is—

Brown, Drawing Account	<i>Dr.</i>
Jones,                   "                   "	<i>Dr.</i>
To Interest on Drawings	<i>Cr.</i>

This Interest, being a gain to the business, must, in accordance with the rules for journalising, be credited.

**INTEREST ON INVESTMENTS.**—A separate account is sometimes opened under this heading for interest on stocks and securities. A more up-to-date method is to show the Interest by the side of the Investment in a parallel column. Examples of this will be found under Investment Accounts.

**INTEREST ON LOANS.**—The Journal entry necessary for charging or allowing interest on loans is as follows—

- (a) Where the money has been borrowed—

Interest on Loans	<i>Dr.</i>
To Lender (or Loan Account)	<i>Cr.</i>

- (b) Where the money has been lent—

Borrower (or Loan Account)	<i>Dr.</i>
To Interest on Loans	<i>Cr.</i>

Where the Loan is for a period of one year and over, such Interest becomes annual interest, and income tax on same must be deducted by the payer and remitted, or accounted for, to the Inland Revenue Authorities. Such Interest will likewise be received by the payee *less tax*.

**INTEREST ON OVERDUE ACCOUNTS.**—The Journal entry necessary for bringing such Interest into account is—

(a) To charge Interest—

Debtor	<i>Dr.</i>
To Interest Received Account	<i>Cr.</i>

(b) To allow Interest—

Interest Paid Account	<i>Dr.</i>
To Creditor	<i>Cr.</i>

With the exception of Bills of Exchange and Promissory Notes, interest cannot be claimed on overdue accounts unless such an agreement has been entered into when the contract was made. The mere statement on an invoice that "*Interest at the rate of 5 per cent. per annum will be charged on overdue accounts,*" is not sufficient legally to enable a trader to recover such interest.

**INTEREST (RED INK).**—(See ACCOUNT CURRENT.)

**INTEREST (SIMPLE).**—The arithmetical method of finding simple interest is by means of the following formula—

$$\text{Interest} = \frac{\text{Principal} \times \text{Rate} \times \text{Time}}{100}$$

Thus, Interest on £5,000 for one year at 5 per cent. would be  $5,000 \times 1 \times 5$   


---

100, that is £250. Five per cent. per annum,

it should be noted, is exactly one penny per pound per month. Thus, Interest on £1 for 1 year at 5 per cent. = 1s. = 12d.

12d. for 12 months = 1d. for 1 month.

When therefore we have to charge Interest on Drawings, or allow Interest on Capital, for so many months at the rate of 5 per cent. per annum, it can be done by the following simple device—

**Rule.**—Call the pounds pence; multiply by the number of months, and the result will be the required Interest.

**Example.**—A. Brown has drawn the following sums:—March 1st, £54; June 1st, £78; August 1st, £95; October 1st, £126. These drawings are subject to Interest at the

rate of 5 per cent. per annum. What sum must he be charged with on 31st December ?

Interest on	£54	for 10 mos.	=	4s. 6d. × 10	=	£	s. d.
"	£78	" 7 "	=	6s. 6d. × 7	=	2	5 6
"	£95	" 5 "	=	7s. 11d. × 5	=	1	19 7
"	£126	" 3 "	=	10s. 6d. × 3	=	1	11 6
Total .. ..						£8	1 7

Where there are fractions of a £, sums of 10s. and over are counted as another £, sums under 10s. being ignored.

**INTEREST SUSPENSE ACCOUNT.**—(See **INSTALMENT PAYMENT PURCHASES.**)

**INTERIM DIVIDEND.**—(See **DIVIDEND.**)

**INTERNAL CHECK.**—This is part of the scheme of organisation of accounts, designed to ensure accuracy of record, detection and rectification of errors, and the prevention of fraud. The following are the principal rules to be observed :

- (1) All cash received to be paid into bank intact every day.  
All payments, except Petty Cash payments, to be made by cheque. A reconciliation statement to be entered in the Cash Book at the end of each month.
- (2) Printed and numbered carbon-copy receipts to be given for all cash received. Other receipts not to be recognised.
- (3) The Petty Cash to be kept on the Imprest System in a tabular book, to be used as a posting medium.  
Vouchers or receipts to be obtained for all payments.
- (4) The cashier not to be allowed to post cash into the Ledger.
- (5) All calculations and additions in the Day Book to be checked by a second clerk.
- (6) All purchases to be made by means of a written order from a printed and numbered counterfoil or carbon-copy Order Book. Order Number to be quoted on all invoices inwards. Verbal orders not to be recognised.
- (7) All purchase invoices to be stamped with a rubber stamp, thus—

GOODS RECEIVED .....
PRICES CORRECT .....
EXTENSIONS CHECKED .....

and clerks responsible for checking instructed to put their initials in the space provided.

(8) The Ledgers to be kept on the self-balancing principle, and the arithmetical accuracy of the postings to be tested by means of the Check Figure System.

(9) A Trial Balance to be taken out at least once a month.

**INTESTATE.**—A term used in *Executorship Accounts*, denoting a person who has died without making a will. There are special rules for distributing an intestate's estate, called "*Statutes of Distribution.*" The personalty must be distributed either *per capita* or *per stirpes*, while the realty goes to the heir at law, subject to the widow's life interest in one-third.

**INTESTATES ACT.**—(See *STATUTES OF DISTRIBUTION.*)

**INVESTMENT ACCOUNTS.**—These are generally ruled with three columns on each side, so that the nominal value of the holding, the principal or capital value, and the periodical interest or dividends may be seen at a glance, the due dates of the latter being shown at the top of the account immediately under the name of the investment. As the interest or dividends are received, Cash will be debited and the income column of the Investment Account credited. At the end of the year the total receipts from each investment will be transferred to a Dividends and Interest Account, or direct to an Income and Expenditure Account, or to Revenue Account as the case may be.

**Accruing Income.**—Where Dividends have accrued but have not been actually received, the amount should at balancing time be brought down as a debit balance in the Income or Interest column of the Investment Account. With regard to Investments in *Executorship Accounts* however, no credit is taken for any income until it is actually received.

**Example 1.**—A. Brown holds £5,200 of  $2\frac{1}{2}$  per cent. Consols, which cost him including brokerage and expenses £4,166 11s. Show the Ledger Account of the investment for one year, dividends being payable on the 5th day of the first month of each quarter of the year. (See page 515.)

**Investments Purchased cum div.**—Whenever investments are purchased cum div.—and the price is always cum div. unless otherwise stated—the amount of the accrued dividend must be deducted from the purchase price and placed in the Interest or Dividend column of the Investment Account; the balance, which represents the true cost of the investment, should then be entered in the Principal or Capital column. When the full dividend is received and credited to the

## 2½ % CONSOLS.

Dr.

DIVIDENDS PAYABLE ON 5TH JAN., 5TH APRIL, 5TH JULY, AND 5TH OCT.

Cr.

Date.	Particulars.	Nominal Value.	Dividends or Interest.	Capital or Principal.	Date.	Particulars.	Nominal Value.	Dividends or Interest.	Capital or Principal.
19.. Jan. 1 Dec. 31	To Balance " Transfer to Dividends and Interest Account	5,200	28 18 10 122 8 4	4,166 11	19.. Jan. 5	By Cash— Qrs. Dividend to date 32 10 0 Less tax at 1s. 2d.* 1 17 11			
					Apr. 5 July 5 Oct. 5 Dec. 31	Cash (do. " " " " " Balance c/d	5,200	30 12 1 30 12 1 30 12 1 30 12 1 28 18 10	4,166 11
		5,200	151 7 2	4,166 11			5,200	151 7 2	4,166 11
19.. Jan. 1	To Balance b/d ..	5,200	28 18 10	4,166 11					

Note 1.—The accruing dividend at the beginning of the year is obtained by taking  $\frac{8}{12}$  of £30 12s. 1d., and the same amount will be carried forward again at the end of the year.

Note 2.—Some accountants make the apportionment on the dividend for the whole year, thus— $\frac{87}{365}$  of £122 8s. 4d This works out to £29 3s. 7d., a variation of 4s. 9d. It makes no difference, however, in the yearly income, which remains at £122 8s. 4d. whichever way is adopted

\* For the purpose of convenience, tax is reckoned at 1s. 2d. in the £.



Dividend or Interest column, the set-off on the debit side will have the effect of reducing the income actually received to the true income receivable for the period during which the investment has been held. Such an adjustment must always be made when stocks and shares are bought cum div., as it would not be proper to show an investment earning *three months'* interest when the investment had been held for—say—only *one* month.

**Investments Sold cum div.**—When investments are sold cum div.—and the price is always cum div. unless otherwise stated—a part of the amount received will represent payment for the accrued interest or dividend to date of sale on such part of the investment as is sold, and must, therefore, be entered in the Interest or Dividend column; otherwise it will look as if the investment was not earning any income for the period preceding the sale. The balance of the money received, after deducting the accrued dividend or interest, will be the amount to enter in the Principal or Capital column.

**Profit or Loss on Sale of Investments.**—When an investment is sold, the balance remaining in the principal or capital columns will represent profit or loss on the sale, and must be transferred to a separate account entitled “Profit (or Loss) on Sale of Investments.” If only a portion of the holding is sold, the balance of the Investment Account should be brought down *at cost*, any difference in the capital columns denoting profit or loss to be adjusted in a similar manner. Although a *capital* profit or a *capital* loss, it is generally carried to Revenue or Profit and Loss Account.

**Balancing Investment Accounts.**—When the account is balanced at the end of the year, the balance should be brought down *at cost* (including brokerage and expenses) regardless of the market price at that date. In the case of firms or companies having a considerable number of investments, a list is generally prepared, at balancing time, showing both the book value and the market value of such investments. Where the market price is below cost, a reserve for depreciation must be made; where it is above cost, no credit should be taken for the enhanced price, as it is not a realised profit. Temporary market fluctuations are ignored, but in cases of permanent depreciation the investments should be written down. Where this has not been done, the market value of such investments should be stated as a note in the Balance Sheet, so that the true facts may be known.

OF.  
AND 31ST DEC.  
ON 1ST MARCH, 1901 JUNE, 30TH SEPT., AND 31ST DEC.

INV]

# DICTIONARY OF BOOK-KEEPING

[INV

Date.	Particulars.	Nominal Value.	Dividend or Interest.	Capital or Principal.
19.. Mar. 1	To Cash— Purchase of £12,000 at 90 cum div. plus Brokerage 8th and Stamps and Expenses, £5 8s. ...	12,000 0 0	75 6 8	10,745 1 4
Dec. 31	To Profit on Sale of Investments Account (transfer) ..			97 17 0
" "	To Dividends and Interest Account (transfer) ..		273 1 8	
19.. Mar. 31	By Cash— One Qr.'s Dividend on £12,000 120 0 0 Less tax at 1s. 2d. 7 0 0		113 0 0	
June 1	By Cash— Sale of £3,000 at 92 cum div. less Brokerage 8th and Expenses, 27s. ..	3,000 0 0	18 16 8	2,736 1 4
" 30	By Cash— One Qr.'s Dividend on £9,000 £90 0 0 Less tax at 1s. 2d. 5 5 0		84 15 0	
Sept. 1	By Cash— Sale of £3,000 at 91 ex-div. less Brokerage 8th and Expenses, 27s. ..	3,000 0 0		2,724 18 0
" 30	By Cash— One Qr.'s Dividend on £9,000 £90 0 0 Less tax at 1s. 2d. 5 5 0		75 6 8	*9 8 4
Dec. 31	By Cash— One Qr.'s Dividend on £6,000 £60 0 0 Less tax at 1s. 2d. 3 10 0	6,000 0 0	56 10 0	5,372 10 8
" "	By Balance (at cost) c/d ..	12,000 0 0	348 8 4	10,842 18 4
19.. Jan. 1	To Balance b/d ..	6,000 0 0		5,372 10 8

\* £3,000 Stock was in hand only 2 months; therefore 1 month's dividend on it must be credited to Capital. Where Dividends are not at a fixed rate adjustments can only be made when the Dividend is actually received.

**Example 2.**—A Company purchased on the 1st March, 19.., £12,000 of 4 per cent. Blank Consolidated Stock at 90, dividends being payable on the last day of each quarter of the year. Brokerage was charged at the rate of  $\frac{1}{8}$ th per cent. and stamps and expenses amounted to £5 8s. 0d. On 1st June £3,000 of stock was sold for cash at 92, less brokerage  $\frac{1}{8}$ th and expenses £1 7s. 0d. On 1st September another £3,000 of stock was sold for cash at 91 ex div. less brokerage  $\frac{1}{8}$ th and charges £1 7s. 0d. The market price on 31st December, the date of the Balance Sheet, was 89. Show the ledger account of the investment recording the above transactions and the receipt of the quarterly dividends, and balance it as on 31st December. (See page 517.)

### INVESTMENTS ON ACCOUNT OF RESERVE FUND.—

(See RESERVE FUND.)

### INVESTMENTS ON ACCOUNT OF SINKING FUND.—

(See SINKING FUND.)

**INVOICE.**—A document giving particulars as to the quantity, description, and price of goods bought.

**Example—**

Invoice.					
Mr. W. J. Marshman			London, 1st Jan., 19..		
Bought of T. C. JONES, FANCY GOODS DEALER.					
2	doz. Fancy Lamp Shades assorted	6/11		13	10
1	doz. Assorted Time Pieces	95/-	4	15	
2	Palm Stands with metal vase	7/11		15	10
1	only Solid Walnut Corner Whatnot	8/11		8	11
		£	6	13	7

**Pro formâ Invoice.**—An invoice made out “*for form’s sake*,” in order to show what the total cost of a quantity of goods would be. Such invoices are usually sent with consignments. They are also forwarded by business firms to *new* customers from whom they have received a small order, as an intimation that the firm requires payment before despatching the goods.

**INVOICE BOOK.**—A book in which a record is kept of all invoices sent out. The record may be either a press-copy or

a carbon facsimile. In cases of dispute an exact copy of the invoice is thus available for reference.

**INVOICE BOOK.**—(See PURCHASES BOOK.)

**I O U**—A contraction for the phrase “*I owe you*,” both sounds being alike. A written memorandum or acknowledgment of debt in which these letters are used.

**Example—**

<i>To Arthur Reeve,</i>	LONDON, 1st Feb., 19..
<i>I O U £40.</i>	<i>John Thumb.</i>

The above document is neither a receipt nor an agreement, and therefore does not need any stamp. It is not a negotiable instrument. In a court of law it is evidence of an account between the parties mentioned, though not of the amount stated. It must not contain any date or promise of repayment, otherwise it would become a Promissory Note, and would require stamping accordingly.

**ISSUED CAPITAL.**—(See COMPANY.)

**JOBBER.**—A dealer in stocks and shares on the Stock Exchange. Jobbers deal only with other jobbers or brokers on their own account, whereas brokers buy and sell only on behalf of their clients. The jobber's profit is the difference between the two published prices of the stock or security; he buys at the lower, and sells at the higher. The broker's remuneration is a commission of about  $\frac{1}{8}$ th per cent. on the stock purchased or sold.

**JOBGING ACCOUNT.**—(See CONTRACTS.)

**JOINT ACCOUNT—JOINT ADVENTURE—JOINT CONSIGNMENT—JOINT VENTURE.**—A Joint Adventure is a partnership without the use of a firm name, limited to a particular speculation in which the two or more persons concerned agree to contribute certain specified amounts of capital and to share profits or losses in the same manner, or in any other equitable proportions. One party may have the advantage of being able to buy on exceptionally good terms; another may be in a position to effect sales at particularly remunerative prices; another party, who may not be favourably circumstanced either for buying or selling, may, however, have special financial resources. Thus the combined services of the parties in a common adventure may make it a highly profitable one. The venture may consist of a joint

consignment of goods, a speculation in shares, an underwriting transaction, or any similar form of enterprise.

In most cases one of the parties is appointed manager, and does all the buying and selling and looking after the venture. For this he obtains an extra remuneration by being allowed to charge against the Joint Adventure a commission of so much per cent. on the amount of the sales, and, in some instances, on the amount of the purchases, sales, and expenses. In such cases a Joint Account is opened and debited with the cost of the goods. Each of the other parties then remits his proportion of the cost, which is placed to the credit of their personal accounts, as this amount is payable back again to them plus their share of profit, or less their share of loss as the case may be. The Joint Account is also debited with all charges expenses, and commission; it is likewise credited with all sales whether for cash or on credit. The balance of the Account then represents profit or loss to be divided according to arrangement. If the goods have been sold for cash, then a remittance to each of the parties concerned for the amount due to him will close the speculation; but if the goods have been sold on credit then the parties concerned will not receive the amount due to them until the sales of the Joint Accounts' goods have been paid for. If the goods are not sold at balancing time the amount of the Joint Account will appear as an asset on the Balance Sheet.

**Example 1.**—Bought goods from Brown & Co., £650, and took from stock goods value £250, for a joint speculation with A and B, profits divisible equally. Received A's and B's moieties of speculation. Paid charges and expenses £65. Sold the Joint Accounts' goods for cash £1,200. Sent sight draft to Brown & Co. Charged as manager 5 per cent. commission on sales. Rendered statements to A and to B with cheques for the amounts respectively due to them. Write up the books and show the Ledger accounts affected.

JOURNAL.		Dr.		Cr	
Joint A/c .. .. .	900				
To Brown & Co. .. ..				650	
,, Goods on Joint A/c ..				250	
for goods for speculation with A and B.					
Joint A/c .. .. .	60				
To Commission .. ..				60	
5 % on sales £1,200 of Joint A/cs' goods.					

Dr.		CASH BOOK.		Cr.	
To A .. ..	300	By Joint A/c ..	65		
" B .. ..	300	" Brown & Co. ..	650		
" Joint A/c ..	1,200	" A .. ..	358	6	8
		" B .. ..	358	6	8

## LEDGER.

Dr.		BROWN & CO.		Cr.	
-----	--	-------------	--	-----	--

To Cash .. ..	650	By Joint Account ..	650		
---------------	-----	---------------------	-----	--	--

Dr.		JOINT ACCOUNT.		Cr.	
-----	--	----------------	--	-----	--

To Brown & Co. ..	650	By Cash .. ..	1,200		
" Goods .. ..	250				
" Cash (Expenses) ..	65				
" Commission .. ..	60				
" Balance (Profit)—					
A     £58 6 8					
B     58 6 8					
Profit					
& Loss   £58 6 8					
	175				
	1200			1200	

Dr.		A.		Cr.	
-----	--	----	--	-----	--

To Cash .. ..	358	6	8	By Cash .. ..	300		
				" Joint Account ..	58	6	8
	358	6	8		358	6	8

Dr.		B.		Cr.	
-----	--	----	--	-----	--

To Cash .. ..	358	6	8	By Cash .. ..	300		
				" Joint Account ..	58	6	8
	358	6	8		358	6	8

Dr.		COMMISSION.		Cr.	
-----	--	-------------	--	-----	--

To Profit and Loss ..	60	By Joint Account ..	60		
-----------------------	----	---------------------	----	--	--

Dr.		GOODS ON JOINT ACCOUNT.		Cr.	
-----	--	-------------------------	--	-----	--

To Trading Account ..	250	By Joint Account ..	250		
-----------------------	-----	---------------------	-----	--	--

Dr.		PROFIT AND LOSS.		Cr.	
-----	--	------------------	--	-----	--

		By Joint A/c ..	58	6	8
		" Commission ..	60		

Dr.		TRADING ACCOUNT.		Cr.	
-----	--	------------------	--	-----	--

		By Goods on Joint A/c	250		
--	--	-----------------------	-----	--	--



In other cases, each of the parties interested opens in his own books just merely an account for the Joint Adventure, to record such of the transactions as he was directly concerned with. A general statement, prepared from information supplied by the parties, is rendered showing the profit on the joint speculation. Each party will debit the Joint Account, and credit his Profit and Loss Account, with his portion of such profit. There will then remain in one of the party's books a debit balance, and in the other party's books a credit balance, of similar amount. Payment of this balance by one party to the other will finally close the adventure.

**Example 2.**—On 1st January A bought goods value £550 and consigned them to B as a joint speculation, profits being divisible equally. On the same date he paid carriage and freight £35, insurance, etc., £12 12s. 0d., and drew on B at two months for £300 on account, discounting the bill on 4th January for £298 15s. 0d. On receipt of the goods on 1st February, B paid dock dues and cartage £15, and Government duty, Insurance, etc., £20. On 31st May A received an account sales showing that on 30th April the goods had realised gross £820, and that B's disbursements made on the same date were Storage £15, Sundries, brokerage, and expenses of sale £50. B also enclosed a sight draft for amount due at 31st May. Prepare a general statement showing the result of the venture, and write up the accounts in A's and B's ledgers respectively. Interest is to be brought into account at the rate of 5 per cent. per annum. (See pages 523 and 524.)

**Example 3.**—X and Y were partners in the following scheme, X to take  $\frac{5}{8}$  and Y  $\frac{3}{8}$  of the profits. They agreed to guarantee the subscription at par of 90,000 shares of £1 each in a Company, and to pay all expenses up to allotment, in consideration of the Company issuing to them 12,000 other shares fully paid. X provided cash for the following expenses: Registration and Fees £120, Advertising £2,098, Printing, Stationery and Prospectuses, £212. Y supplied cash for remainder:—Rent of Office £32, Secretary, etc., £115, Petty Cash and Sundries £32 6s. 8d., Stamps £95, Solicitors' Charges £225. Applications fell short of the 90,000 by 4,000 shares, and, by arrangement, Y found the cash in full for that number on the Joint Account. The Company handed X and Y the 12,000 shares. X and Y then sold all their shares at 16s. 8d. each, less brokerage at  $1\frac{1}{2}$ d. per share. Y received the net proceeds of 4,000 shares, and X the remainder. Make



In A's Ledger.

## JOINT CONSIGNMENT WITH B.

JOINT CONSIGNMENT WITH B.										Cr.
		Mths.	Interest.	Amount.		Mths.	Interest.	Amount.		
19..					19..					
Jan. 1	To Goods .....	5	11 9	550	Jan. 1	By Bill Receivable at 2 months ..				
" "	" Carriage and Freight ..	5	14 7	35	May 31	" Interest ..	3 315	300		
" 4	" Insurance ..	5	5	12 12	" "	" Balance (due from B) c/d ..		315		
May 31	" Discount on Bill ..	5	5	1 5	" "			363 311		
"	" Interest ..			12 9						
	" P. & L. Account (Share of Profit) ..			55 12 4						
				<u>666 18 11</u>				<u>666 18 11</u>		
May 31	To Balance (due from B) b/d			<u>363 311</u>	May 31	By Cash ..		<u>363 311</u>		

In B's Ledger.

## JOINT CONSIGNMENT WITH A.

	Mths.	Interest.	Amount.		Mths.	Interest.	Amount.
19..				19..			
Feb. 1	3	3 15 0	300	Apr. 30			
" "	4	5 0	15	May 31	1	3 8 4	820
Apr. 30	4	6 8	20				3 8 4
" "	1	1 3	15				
May 31	1	4 2	50				
" "			4 12 1				
" "			55 12 4				
" "			363 3 11				
" "			823 8 4				823 8 4
May 31			363 3 11	May 31			363 3 11
To Cash .. .. .				By Balance (due to A) b/d			

out the Joint Account, and also the separate accounts of the partners, showing their respective shares of the profits, and the amount due from one to the other in settlement.

Dr.	JOINT VENTURE.			Cr.
To X—			By X—	
Registration and Fees ..	120		Proceeds of Sale of	
Advertising .. ..	2,098		12,000 Shares at 16s.	
Printing and Prospects .. ..	212		6½d. net .. ..	9,925
„ Y—			„ Y—	
Rent of Office .. ..	32		Proceeds of Sale of 4,000	
Secretary, etc. .. ..	115		Shares at 16s. 6½d. net	3,308 6 8
Petty Cash and Sundries ..	32	6 8		
Stamps .. ..	95			
Solicitors' Charges .. ..	225			
„ Y—Cash for Shares not				
taken up .. ..	4,000			
„ Balance (Profit)—				
X, .. ..	£3,940			
Y, .. ..	2,364			
	6,304			
	13,233	6 8		13,233 6 8

Dr.	X.			Cr.
To Joint Account—			By Joint Account—	
Proceeds of Sale of			Registration and Fees ..	120
12,000 Shares at 16s.			Advertising .. ..	2,098
6½d. net .. ..	9,925		Printing and Prospects .. ..	212
			„ Joint Account—	
			8ths of Profit .. ..	3,940
			„ Balance (due to Y) c/d ..	3,555
	9,925			9,925
To Balance (due to Y) b/d ..	3,555			

Dr.	Y.			Cr.
To Joint Account—			By Joint Account—	
Proceeds of Sale of			Rent of Office .. ..	32
4,000 Shares at 16s.			Secretary, etc. .. ..	115
6½d. net .. ..	3,308	6 8	Petty Cash and Sundries ..	32
„ Balance (due from X) c/d	3,555		Stamps .. ..	95
			Solicitors' Charges .. ..	225
			„ Joint Account—	
			Cash for Shares not	
			taken up .. ..	4,000
			„ Joint Account—	
			8ths of Profit .. ..	2,364
	6,863	6 8		6,863 6 8
			By Balance (due from X) b/d	3,555

Sometimes a separate joint banking account is opened, and a separate set of books kept for the Adventure. The transactions are then recorded like ordinary partnership transactions; and, in such cases, interest on capital is generally allowed, particularly when the parties concerned have advanced unequal amounts.

**JOINT ESTATE.**—The estate of the firm as opposed to the separate estates of the individual partners.

**JOINT PROMISSORY NOTE.**—(See PROMISSORY NOTE.)

**JOINT STOCK COMPANY.**—(See COMPANY.)

**JOURNAL.**—The Journal, or daily record, was the original book of first entry into which transactions were copied, in chronological order, from the Waste Book, and arranged in a classified, technical form for subsequent transfer to the Ledger. The enormous labour and inconvenience of journalising every transaction, and the ever-pressing necessity for grouping different kinds of transactions, such as Cash, Purchases, Sales, etc., in order to facilitate rapid subsequent reference, led to the gradual introduction of subsidiary books or books of prime entry. These, however, were still regarded as parts of the Journal itself; and entries recorded in them were recorded periodically, in summary or total, also in the Journal proper, thus duplicating the work. The names attaching to the subsidiary books at the present day show that they have all grown out of the Journal, and are really modified forms of it, *e.g.*, Cash Journal, Purchases Journal, Sales Journal, Returns Journal, etc.

**Use of Journal Compulsory.**—In France, Spain, Italy, parts of Germany and Austria, and wherever the Code, Napoleon prevails, the use of the Journal is enforced by law. In Russia the use of the Journal is likewise compulsory; it is, moreover, the only book accepted as evidence in a Court of Law. In some countries the law prescribes even the size and rulings of the books of account. On the Continent, therefore, all transactions go through the Journal. Sometimes, however, subsidiary books are used to record the details, only the totals being journalised. They seem to think, as an eminent accountant humorously remarks, that businesses were made for books, instead of books for businesses.

**Modern Use of the Journal.**—In many counting-houses the Journal is conspicuous by its absence, it being actually possible (though not advisable) to keep a set of books without

utilising a Journal at all. The Journal is now used for such entries as cannot conveniently be made in the other subsidiary books, that is, for opening and closing entries, transfers, adjustments at balancing time (interest, depreciation, bad debts, reserves, etc.), and correction of errors. As all these entries may be made direct from one Ledger account to another, the Journal can be entirely dispensed with. The great danger attending the practice of making transfers direct from one account in the Ledger to another is that one-sided entries may be made, the other being inadvertently omitted or perhaps forgotten. This, of course, throws out the Trial Balance, and the difficulty is, that there is not the slightest clue to the error. Checking and re-checking of the postings and castings fail to discover the mistake. Finally, each account in the Ledger must be gone through to see if all the entries are ticked ; and, at length, the cause of the trouble is detected—a one-sided entry. If such transfers are always made through the medium of the Journal, such a contingency is at once obviated.

**Theory of Journalising.**—Every transaction that takes place in business is capable of being split up into two parts, a **receiving** part and a **giving** part. Suppose, for instance, we pay a person some money which we owe him—we **give**, he **receives**. Take another case ; suppose we see something in a shop-window that we like, and we go in and buy it, the transaction, viewed from the shopkeeper's point of view, is briefly this—he **receives** money, and he **gives** goods. So we see that in all transactions there are these two parts, receiving and giving. The receiving side of the transaction may be either a person, called the **Receiver**, or a **thing received** ; the giving side may likewise be either a person, called the **Giver**, or a **thing given**. In book-keeping, the receiving part of a transaction, either person or thing, is called the **Debtor**, and is entered in the first column of the Journal. The giving part of a transaction, either person or thing, is termed the **Creditor**, and is entered in the second column of the Journal. When, therefore, we are asked to journalise a transaction, we are simply being asked, in other words, to split the transaction up into its receiving and giving parts, or, in book-keeping language, into the debtor and creditor, and place them in their proper columns in the Journal. Certain time-honoured Rules exist which enable a student to do this quickly and accurately.



**Rules for Journalising.**—The Golden Rules, as they are called, are as follows—

- (1) Debit Receiver, or the thing received.
- (2) Credit Giver, or the thing given.
- (3) Debit Losses, credit Gains.
- (4) Every Debit must have a corresponding Credit.

The last so-called rule is better considered as part of the theory of double entry rather than as a rule for journalising.

From the point of view of the *transactions*, the Rules may be stated thus—

- (1) Debit the thing received and credit the Giver.
- (2) Debit the Receiver and credit the thing given.
- (3) Debit what comes in and credit what goes out.
- (4) Debit Losses, credit Gains.

From the point of view of the *accounts*, the rules may be stated in this way—

- (1) Personal Accounts—debit Receiver, credit Giver.
- (2) Real Accounts—debit the thing received, credit the thing given.
- (3) Nominal Accounts—debit Losses, credit Gains.

**Example 1.**—(Rule 1 as stated the second way)—

Bought Goods of Brown—Goods *Dr.*, Brown *Cr.*  
Received Cash from Smith—Cash *Dr.*, Smith *Cr.*

**Example 2.**—(Rule 2, as stated the second way)—

Sold Goods to Smith—Smith *Dr.*, Goods *Cr.*  
Paid Brown Cash—Brown *Dr.*, Cash *Cr.*

**Example 3.**—(Rule 3, as stated the second way)—

Bought Goods for Cash—Goods *Dr.*, Cash *Cr.*  
Sold Goods for Cash—Cash *Dr.*, Goods *Cr.*

**Example 4.**—(Rules 3 and 4, as stated the second way)—

Paid Trade Expenses in Cash—Trade Expenses (loss) *Dr.*, Cash (goes out) *Cr.*  
Received Cash for Commission—Cash (comes in) *Dr.*, Commission (gain) *Cr.*

The Rules for Journalising, it should be noted, apply only to transactions, and not to closing entries or other transfers, which are merely paper entries.

**Example.**—Journalise the following transactions and post same to Ledger Accounts.



## JOURNAL (cont.)

Dr.

Cr.

Jan. 18	Brought forward ..	160	1,530	13	1,530	13
	J. Rogers .. ..	158	26	14 11		
	To Goods .. ..				26	14 11
20	Goods .. ..	158	140	16		
	To T. Phillips .. ..	159			140	16
24	B. Brown .. ..	161	23	13 8		
	C. Coffee .. ..	162	20	16 7		
	J. Rogers .. ..	160	56	15		
	To Goods .. ..	158			101	5 3
26	Cash .. ..	157	23	13 8		
	To B. Brown .. ..	161			23	13 8
28	Cash .. ..	157	25			
	Discount .. ..	163	1	14 11		
	To J. Rogers .. ..	160			26	14 11
30	T. Phillips .. ..	159	100			
	To Cash .. ..	157			100	
31	Rent .. ..	164	20			
	Wages .. ..	165	15	10 6		
	Trade Expenses .. ..	166	9	10 8		
	To Cash .. ..	157			45	1 2
	Total ..		1,994	18 11	1,994	18 11

## Ledger.

Dr.

## CAPITAL ACCOUNT.

(156)  
Cr.

				19..					
				Jan. 1	By Cash .. ..	67	1,000		

Dr.

## CASH.

(157)  
Cr.

19..				19..					
Jan. 1	To Capital ..	67	1,000	Jan. 8	By T. Phillips ..	67	150		
" 13	" J. Rogers ..	67	56 10	" 14	" Goods ..	67	60	12	6
" 16	" Goods ..	67	43 9 6	" 30	" T. Phillips ..	67	100		
" 26	" B. Brown ..	67	23 13 8	" 31	" Sundries ..	67	45	1	2
" 28	" J. Rogers ..	67	25						

Dr.

## GOODS.

(158)  
Cr.

19..				19..					
Jan. 4	To T. Phillips ..	67	156 15 6	Jan. 6	By J. Rogers ..	67	56	10	
" 14	" Cash ..	67	60 12 6	" 16	" Cash ..	67	43	9 6	
" 20	" T. Phillips ..	67	140 16	" 18	" J. Rogers ..	67	26	14 11	
				" 24	" Sundries ..	67	101	5 3	

Dr.		T. PHILLIPS.										(159) Cr.	
19.. Jan. 8	To Cash ..	.. 67	150			19.. Jan. 4	By Goods ..	.. 67	156	15	6		
	" Discount	.. 67	6	15	6	" 20	" do. ..	.. 67	140	16			
	" Cash ..	.. 67	100										
Dr.		J. ROGERS.										(160) Cr.	
19.. Jan. 6	To Goods ..	.. 67	56	10		19.. Jan. 13	By Cash ..	.. 67	56	10			
" 18	" do.	.. 67	26	14	11	" 28	" do.	.. 67	25				
" 24	" do.	.. 67	56	15		" "	" Discount	.. 67	1	14	11		
Dr.		B. BROWN.										(161) Cr.	
19.. Jan. 24	To Goods ..	.. 67	23	13	8	19.. Jan. 26	By Cash ..	.. 67	23	13	8		
Dr.		C. COFFEE.										(162) Cr.	
19.. Jan. 24	To Goods ..	.. 67	20	16	7								
Dr.		DISCOUNT.										(163) Cr.	
19.. Jan. 28	To J. Rogers	.. 67	1	14	11	19.. Jan. 8	By T. Phillips	.. 67	6	15	6		
Dr.		RENT.										(164) Cr.	
19 Jan. 31	To Cash ..	.. 67	20	0	0								
Dr.		WAGES.										(165) Cr.	
19 Jan. 31	To Cash ..	.. 67	15	10	6								
Dr.		TRADE EXPENSES.										(166) Cr.	
19.. Jan. 31	To Cash ..	.. 67	9	10	8								

**Combinations or Collective Entries.**—Where there are several transactions on the same day with the same account, separate entries need not be made for each. They should be collected or combined into one, thus lessening the number of entries to make and likewise the number to post. Such entries as those on the 8th, 24th, 28th, 31st, are called combinations or collective entries. Instead of making three entries to the Goods Account on the 24th, one combined entry, crediting the Goods Account with the total, is a great saving of time and labour. Again, on the 31st, one collective entry crediting Cash with the total is quite sufficient.

**Narration.**—This term signifies the remarks written under each Journal entry. The note so made is either a concise account of the transaction, or a brief explanation of the transfer or whatever it may be, the *raison d'être*, so to speak, of the entry itself. With the modern use of the Journal, narrations become imperative. For examples of these see Adjustments, Bad Debts, Closing Entries, Company, etc.

**Posting Journal to Ledger.**—Every Account mentioned in the Journal must be opened in the Ledger, but only once, one Goods Account, one Cash Account, and so on. The entries in the Journal must then be posted or transferred to their proper accounts in the Ledger, all Cash transactions to the Cash Account, all Goods transactions to the Goods Account, and so on. The Accounts which are debited in the Journal must be debited in the Ledger, and the Accounts which are credited in the Journal must be credited in the Ledger; we do not, as in the case of a Cash Book, reverse the sides. The Cash Book is a Ledger Account, the Journal is not. In posting, the word "*To*" is used on the debit side of the Ledger Accounts, and the word "*By*" on the credit side. The Accounts whose amounts are in the first column of the Journal are said to be "*Debtor to*" those Accounts whose amounts are in the second column. And the Accounts whose amounts are in the second column are said to be "*Creditor by*" those Accounts whose amounts are in the first column. The name of the Account must not appear in the account itself; for an Account cannot have a transaction with itself, it can only have a transaction with some other Account. A transaction is an exchange of value; and an exchange implies *two* accounts or *two* persons. It is a very common mistake of students, however, to enter the word Cash in the Cash Account, Goods in the Goods Account, Brown in Brown's Account, and so on.

**Folios.**—These are the page-numbers inserted in the books when posting, in order to facilitate subsequent reference if necessary. We can thus easily see, in the Ledger, from what page of the Journal an entry has come; and, in the Journal, we can likewise easily see to what page of the Ledger an entry has been posted. In the worked example, the *supposed* folios have been inserted, in both Journal and Ledger, in order to make this quite clear.

**"Sundries."**—Instead of copying down a lot of items to which an account may be debtor, or by which it may be

creditor, we simply write "*To Sundries*," or "*By Sundries*," as the case may be. The term is really an abbreviation for "*Sundry Accounts*."

"*Sundries To Sundries*."—This is an ornamental phrase much favoured by some accountants when making Journal entries. It necessitates, however, the use of two extra lines for each Journal entry, without any apparent advantage. A variation is sometimes met with, "*Sundries*" being written only once, and the credit items entered before the debit items; this tends rather to make the entry obscure. For instance, in the worked Journal Example, the transaction on the 24th January would, by these methods, appear thus—

**First Method—**

JOURNAL.				Dr.			Cr.		
19..									
Jan. 24	Sundries								
	To Sundries, viz.—								
	B. Brown .. ..	161	23	13	8				
	C. Coffee .. ..	162	20	16	7				
	J. Rogers .. ..	160	56	15					
	Goods .. ..	158					101	5	3
	for sales made to them.								

**Second Method—**

JOURNAL.				Dr.			Cr.		
19..									
Jan. 24	Sundries								
	To Goods .. ..	158					101	5	3
	B. Brown .. ..	168	23	13	8				
	C. Coffee .. ..	162	20	16	7				
	J. Rogers .. ..	160	56	15					
	for sales made to them.								

**Classified Journals.**—These are Journals which have separate columns for constantly recurring Accounts, such as Goods, Cash, etc. They effect a great saving of time and labour, and afford greater facilities for rapid reference. These separate columns in the Journal really form Ledger Accounts, which need therefore be posted only in total instead of in detail. Other columns are sometimes added, such as Bank, Discount, Bills Receivable, Bills Payable, etc.

**Example.**—Journalise the transactions in the previous example (Waste Book, page 529) in classified columnar Journal form.





**KITES.**—(See ACCOMMODATION BILLS.)

**LAC (OR LAKH) OF RUPEES.**—100,000 Rupees. It is written 1.00.000.

**LAND AND BUILDINGS.**—These are divided into two classes, Freehold and Leasehold. For rates of depreciation, and for treatment of alterations and improvements of Premises, see under Depreciation and Alterations respectively.

**LANDLORD'S TAX.**—Schedule A Tax.

**LAPSE.**—A term used in Executorship Accounts to denote the falling of a Legacy into Residue, owing to the legatee having pre-deceased the testator.

**LAW CHARGES—LAW COSTS.**—(See LEGAL EXPENSES.)

**LEASE.**—A grant of land or tenements for a fixed period, or for life, by one person (**lessor**) to another person (**lessee**) in consideration of an annual rent. Sometimes the consideration is the payment of a lump sum down, which, in this case, is called a **Premium on Lease Account**, and represents virtually pre-paid Rent. Every Lease for a longer term than three years must be made by deed. There are three methods of depreciating a Lease :—

(1) By dividing the sum paid by the term of the Lease, and writing off this amount each year.

(2) By the Annuity Method.

(3) By the Depreciation Fund Method.

For an example of each of these, see under DEPRECIATION.

**LEASE REDEMPTION FUND.**—(See DEPRECIATION.)

**LEASEHOLD PROPERTY.**—Lands or tenements which are held under a Lease. In Executorship Accounts, leaseholds count as personalty, though they are subject to *succession* instead of *legacy* duty.

**LEDGER.**—The **principal** book of account in double-entry book-keeping. In Italian it is called *le Libro* = the book; in French *le grand livre* = the great book; in German *das Hauptbuch* = the main or chief book. The English word seems to be derived from the Old Dutch *legger* from *leggen* = to lie. It contains, in a summarised and classified form, the *whole* of a trader's transactions as per the *subsidiary* books or books of original entry. The Cash Book, as has been previously mentioned, is merely a part of the Ledger bound separately for the sake of convenience. If we wish to refer to our transactions with—say—B. Brown, we do not have to trace them all through the subsidiary books; we simply turn to B. Brown's Account in the Ledger, where we

find a condensed record of all our different transactions with him. The same remark applies to other accounts, impersonal as well as personal. If we desire to see what plant and machinery we have purchased during the last few years, we do not search for such items all through the various books, but merely refer to the Plant and Machinery Account in the Ledger, which will give us the necessary information very quickly. Again, if we want to ascertain what wages have been paid for the last period or so, instead of looking all through the Cash Book, we just turn up the Wages Account in the Ledger, and there we can get immediately the information we require. Thus we see, the Ledger is really a book in which all the trader's transactions "*lie*" ready for reference.

**Subdivisions of the Ledger.**—For the sake of convenience the Ledger in modern offices is subdivided as follows—

**Bought or Purchases Ledger**, containing the Creditors' Accounts.

**Sold or Sales Ledger**, containing the Debtors' Accounts.

**Impersonal or General Ledger**, which contains the real and nominal accounts. It is sometimes called the **Nominal Ledger**, though this is not correct unless it contains only accounts representing gains and losses.

**Private Ledger**, containing the Capital and Drawing Accounts of the partners, also the Profit and Loss Accounts and Balance Sheets of the different trading periods.

The above are the usual subdivisions of the Ledger. In some businesses, however, there are Agents' Ledgers, Consignment Ledgers, Bills Receivable and Payable Ledgers, Branch Ledgers, Loan Ledgers, Investment Ledgers, Columnar or Tabular Ledgers, etc., each firm introducing different kinds in order to suit its own special needs.

**Sectional Division of Ledgers.**—Where the Sales Ledgers and Bought Ledgers are very numerous, they are divided into sections (a) *alphabetically* as A-K, L-R, S-Z; (b) *geographically* as Town, Country, Foreign, (c) *departmentally* either by letters or names as A Dept., B Dept., C Dept., or Drapery Dept., Hosiery Dept., Outfitting Dept., etc.

**Index.**—Ledgers generally contain an index at the beginning of the books lettered A-Z, in order to facilitate reference to accounts in it. The name of each account is indexed under that letter of the alphabet which commences the surname or other distinctive name of the person, firm, etc., concerned. **Card Indexes** are also utilised, a separate card being used for

each person's name, and the cards kept together in a tray. They save the book-keeper the trouble of rewriting the Index when full; and they also facilitate the addition of new names without putting the others out of order.

**Rulings of Ledgers.**—The rulings of Ledgers are numerous and varied. The commonest types have rulings for date, particulars, folio, and amount. Some of these have only one money column each side, others have two. Double money columns are necessary where accounts have to be kept in currency as well as in sterling; they are also used to facilitate the ruling off of accounts as and when they are paid. Examples of the use of double money columns will be found under Foreign Currency Accounts.

**Balancing and Ruling Off.**—There is no hard and fast rule for balancing Ledger Accounts. Some firms balance monthly, when they render their statements monthly; others balance quarterly, when they render their statements quarterly. Some have the Ledgers balanced, and the balances brought down, each month in support of the monthly Trial Balance which is taken out to prove the books. Other firms will not have the Ledgers balanced at all until the end of the year, although many parts of the account may have been settled; the object of this is to enable the firm to see the annual *turnover* in respect of each customer. Three examples follow in order to illustrate the different methods.

**Example 1—**

Dr.				B. BROWN.				Cr.			
19..				19..							
Jan. 11	To Goods .. ..	27	16 11	Feb. 7	By Cash .. ..	26	9 1				
				" "	" Discount .. ..	1	7 10				
		27	16 11			27	16 11				
Feb. 8	To Goods .. ..	55	4 9	Mar. 15	By Cash .. ..	50					
Mar. 23	" " .. ..	67	10 8	Apr. 11	" " .. ..	60					
Apr. 20	" " .. ..	122	3 6	May 12	" " .. ..	100					
May 15	" " .. ..	98	5 6	June 12	" " .. ..	126	11 3				
				" "	" Discount .. ..	6	13 2				
		343	4 5			343	4 5				
June 13	To Goods .. ..	65	3 9	July 15	By Cash .. ..	60					
July 12	" " .. ..	28	2 3	Aug. 16	" " .. ..	20					
Aug. 17	" " .. ..	14	6 8	Sept. 17	" " .. ..	10					
Sept. 20	" " .. ..	75	2 10	Oct. 18	" " .. ..	70					
Oct. 18	" " .. ..	56	3 4	Nov. 20	" " .. ..	50					
Nov. 21	" " .. ..	87	4 2	Dec. 13	" " .. ..	110	6 10				
				" "	" Discount .. ..	5	16 2				
		326	3			326	3				
Dec. 15	To Goods .. ..	28	3 11								

The foregoing example is very clear as regards the different parts of the account settled, but it does not show the turnover for the year.

## Example 2—

Dr.				B. BROWN.				Cr.			
19..								19..			
Jan. 11	To Goods .. ..	27	16	11	Feb. 7	By Cash .. ..	26	9	1		
Feb. 8	" " .. ..	55	4	9	" "	" Discount .. ..	1	7	10		
Mar. 23	" " .. ..	67	10	8	Mar. 15	" Cash .. ..	50				
Apr. 20	" " .. ..	122	3	6	Apr. 11	" " .. ..	60				
May 15	" " .. ..	98	5	6	May 12	" " .. ..	100				
June 13	" " .. ..	65	3	9	June 12	" " .. ..	126	11	3		
July 12	" " .. ..	28	2	3	" "	" Discount .. ..	6	13	2		
Aug. 17	" " .. ..	14	6	8	July 15	" Cash .. ..	60				
Sept. 20	" " .. ..	75	2	10	Aug. 16	" " .. ..	20				
Oct. 18	" " .. ..	56	3	4	Sept. 17	" " .. ..	10				
Nov. 21	" " .. ..	87	4	2	Oct. 18	" " .. ..	70				
Dec. 15	" " .. ..	28	3	11	Nov. 20	" " .. ..	50				
					Dec. 13	" " .. ..	110	6	10		
					" "	" Discount .. ..	5	16	2		
					" 31	" Balance c/d ..	28	3	11		
		725	8	3				725	8	3	
19..											
Jan. 1	To Balance b/d ..	28	3	11							

The above method shows very clearly the annual turnover, though it is anything but clear respecting the cash settlements of different portions of the account.

## Example 3—

Dr.				B. BROWN.				Cr.			
19..				19..				19..			
Jan. 11	To Goods ..	27	16 11	27	16 11	Feb. 7	By Cash ..	26	9 1		
Feb. 8	" " ..	55	4 9			" "	" Discount ..	1	7 10	27	16 11
Mar. 23	" " ..	67	10 8			Mar. 15	" Cash ..	50			
Apr. 20	" " ..	122	3 6			Apr. 11	" " ..	60			
May 15	" " ..	98	5 6	343	4 5	May 12	" " ..	100			
June 13	" " ..	65	3 9			June 12	" " ..	126	11 3		
July 12	" " ..	28	2 3			" "	" Discount ..	6	13 2	343	4 5
Aug. 17	" " ..	14	6 8			July 15	" Cash ..	60			
Sept. 20	" " ..	75	2 10			Aug. 16	" " ..	20			
Oct. 18	" " ..	56	3 4			Sept. 17	" " ..	10			
Nov. 21	" " ..	87	4 2	326	3	Oct. 18	" " ..	70			
Dec. 15	" " ..	28	3 11			Nov. 20	" " ..	50			
						Dec. 13	" " ..	10	6 10		
						" "	" Discount ..	5	16 2	326	3
						" 31	" Balance				
							c/d ..	28	3 11		
		725	8 3					725	8 3		
19..				19..				19..			
Jan. 1	To Balance										
	b/d ..	28	3 11								

This last way seems to combine the advantages of the other two methods, showing both turnover and the different periods of settlement.

**LEGACY.**—A Legacy is a gift of personalty made by will. Legacies are of three kinds, general, demonstrative, and specific.

A **General Legacy** is a gift out of the general funds of the estate, as “I leave my friend W. Marshman £1,000.”

A **Demonstrative Legacy** is one payable out of a particular fund or portion of the estate, as “I leave my old friend, T. C. Jones, £2,000, payable out of my £5,000 Consols.” If after the testator’s death it is found that the particular fund has ceased to exist, the Legacy is not lost, but becomes a general legacy, payable out of the general funds of the estate.

A **Specific Legacy** is a gift of some particular portion of the estate itself, as “I leave my old friend, T. Bayes, my collection of china.” Specific legacies are subject to **ademption**, that is, they may be disposed of in the testator’s lifetime. In such cases the legatee loses his legacy. Specific legacies are usually left *free of duty*, for the duty cannot be collected by deduction as in the case of pecuniary legacies; otherwise, however, the executor must obtain the duty from the legatee before handing over the legacy.

**Contingent and Vested Legacies.**—Another important division of legacies is into vested and contingent. A **Vested Legacy** is one which the legatee is to have in any event, although the time of payment may be postponed. The legacy in such cases vests in the legatee immediately on the death of the testator. A **Contingent Legacy** is one that is dependent on the happening of a certain event, such as the legatee attaining a certain age.

**Lapse.**—Legacies lapse, *i.e.*, fall into residue, if the legatee dies before the testator. The two exceptions are—

- (1) Where the deceased legatee was a child of the testator and has left issue. In this case the legacy goes as if the legatee had died immediately after the testator.
- (2) Where the legacy is charged on land, it does not lapse, but ceases to be payable, to the benefit of the realty itself.

**Payment of Legacies.**—The Executor is allowed one year in which to settle the debts and pay the legacies. After this time, the legacies carry interest at the rate of 4 per cent. per annum. Creditors and Legatees may, however, sue the



Executor before the expiration of the year. Legatees may also be called upon to refund their legacies in order to discharge any debt of which the executor was previously ignorant.

**Interest on Legacies.**—Legacies bear interest as mentioned above. In the following cases they bear interest from date of testator's death—

- (a) Specific legacies.
- (b) Legacy in satisfaction of a debt.
- (c) Legacy to a child for its maintenance.
- (d) Legacies charged on real estate.

The rate of interest is generally 4 per cent.

**Abatement of Legacies.**—If after payment of testamentary expenses, estate duty, and creditors, there is an insufficiency of assets to pay the legacies, the latter must abate *pari passu*, i.e., be proportionately reduced. The general pecuniary legacies (including annuities and legacies in satisfaction of debts) must first abate among themselves. When the General Legacies Fund is exhausted, then the specific and demonstrative legacies must abate proportionately among themselves. Specific devises also abate with them.

**Executor's Legacy.**—An executor has no priority for his legacy, which also abates with the others if necessary. He is not entitled to any remuneration at all for his services unless the will provides otherwise.

**Annuities.**—A legacy sometimes takes the form of an annuity for the legatee's lifetime. If the will does not contain specific instructions, it may be provided by any of the following means—

- (a) By purchase out of Capital, from a Life Assurance Company, or the Government.
- (b) By payment out of the general Income of the estate.
- (c) By "ear-marking" special Investments, and paying the annuity out of the interest received, retransferring the investments to the general estate on the death of the annuitant.

Legacy Duty is payable on annuities the same as on other legacies. The duty is levied on the Capital cost, if purchased, and on the present worth (as per Government tables) if payable out of income, and may be paid by four annual instalments. Income tax will be deducted on each payment of the annuity.

**Legacy Duty.**—Legacy duty is payable on all bequests of personalty (except leaseholds) and on *donationes mortis*

*causâ.* The rates of duty, which depend on the degree of relationship to the testator, are as follows—

	Per cent.
Husband, Wife, lineal ascendant, ( <i>i.e.</i> , father, mother, grandfather) or descendant, ( <i>i.e.</i> , child, grandchild), or their husbands or wives.. ..	1
Brothers and Sisters, or their descendants, or their husbands or wives .. ..	5
Uncles and Aunts, or their descendants, or their husbands or wives .. ..	10
Great Uncles and Great Aunts, or their descendants, or their husbands or wives.. ..	10
All other kindred, or strangers in blood .. ..	10

The one per cent. duty is *not* payable in the following cases—

- (a) Where the principal value of the property in respect of which estate duty is payable does not exceed £15,000, whatever may be the value of the legacy or succession.
- (b) Where the value of the legacy or succession together with any other legacies or successions from the testator does not exceed £1,000, whatever may be the principal value of the property.
- (c) Where the person taking the legacy or succession is the widow or child under 21, and the amount or value of the legacy or succession together with any other legacies or successions from the testator does not exceed £2,000, whatever may be the principal value of such property.

**Exemptions from Legacy Duty.**—The following are exempt from legacy duty—

- (a) Legacies to any of the Royal Family.
- (b) Where the total value of the estate is under £100.
- (c) Where the gross value of the estate, upon which the fixed duty has been paid, does not exceed £500 ;
- (d) Where the net value of the estate, upon which either the fixed duty or estate duty has been paid, does not exceed £1,000.
- (e) Specific legacies to public bodies for preservation and not for sale.

**Taking through husband or wife.**—Where the legatee's husband or wife is of nearer relationship to the testator than the legatee, the latter will take through such husband or wife, and pay only the rate of duty applicable had the legacy been left to the nearer relation.

**Collection of Duty.**—The executor is responsible to the

Inland Revenue Authorities for the payment of the Legacy Duty, which he is expected to deduct from the legacy. Where Legacies are left free of duty, he will still pay the duty, but will not recover it from the legatee. Interest is chargeable on this duty if not remitted within 21 days of its collection.

**LEGACY IN EXECUTORSHIP ACCOUNTS.**—Legacies, it should be noted, are not actual liabilities of the estate at death. They are an integral part of the estate itself upon which duty is payable. The creditors must be satisfied in full before legacies can be distributed. A Legacies Account is opened in the Ledger and debited with the payment of the pecuniary legacies as per the Cash Book, and also with the value of the specific legacies handed over. The Legacies Account should also be debited with the payment of the Legacy Duty, whether borne by the legatee or the estate; such duty should not be charged to the Testamentary Expenses Account. The Legacies Account is closed by transfer of the amount to the Estate Account. Legacy Duty is a charge against *Capital*, but interest on legacy duty is a charge against *Income*.

**Example.**—S. Smith died leaving the following legacies—

Mrs. Brown (sister), Household Furniture, valued for estate duty at £1,000, left free of duty.

A. Smith (son), £12,000 ;

F. Smith (brother), £4,000 ;

A. Quick (brother-in-law, sister's husband), £2,000 ;

B. Eagle (cousin), £2,000 ;

C. Feathers (father's cousin), £2,000 ;

D. Good (brother-in-law, wife's sister's husband), £1,000.

P. Peters and R. Roberts, his executors (strangers in blood), £500 each.

After paying all debts, funeral and testamentary expenses, and estate duty, the estate realised £18,050. Write up the Cash Book and the Ledger Accounts.

The total of the legacies amounts to £24,000. As the available Cash is £18,050, from which must be deducted £50 (5 per cent. Duty on Furniture), there will remain only £18,000. The legacies must therefore abate proportionately ; and each legatee will receive, subject to legacy duty,  $\frac{18,000}{24,000}$  or three-fourths of the amount bequeathed to him by the will.

Dr.		CASH BOOK.				Cr.	
To Balance ..		18,050		By Legacies A/c—			
				A. Smith—			
				$\frac{1}{2}$ of 12,000 ..	9,000		
				Less Duty 1%	90		
						8,910	
				P. Smith—			
				$\frac{1}{2}$ of £4,000 ..	3,000		
				Less Duty 5%	150		
						2,850	
				A. Quick—			
				$\frac{1}{2}$ of £2,000 ..	1,500		
				Less Duty 5%	75		
						1,425	
				B. Eagle—			
				$\frac{1}{2}$ of £2,000 ..	1,500		
				Less Duty 10%	150		
						1,350	
				C. Feathers—			
				$\frac{1}{2}$ of £2,000 ..	1,500		
				Less Duty 10%	150		
						1,350	
				D. Good—			
				$\frac{1}{2}$ of £1,000 ..	750		
				Less Duty 10%	75		
						675	
				P. Peters—			
				$\frac{1}{2}$ of £500 ..	375		
				Less Duty 10%	37 10		
						337 10	
				R. Roberts—			
				$\frac{1}{2}$ of £500 ..	375		
				Less Duty 10%	37 10		
						337 10	
				Legacy Duty—			
				As above ..	765		
				On Furniture			
				to Sister 5%			
				£1,000 ..	50		
						815	
		18,050				18,050	

(See also next page.)

**LEGAL ASSETS.**—(See MARSHALLING OF ASSETS.)

**LEGAL EXPENSES.**—These consist of law charges, solicitors' fees, etc., in connection with recovery of debts and other actions at law. A separate account is opened for these expenses, and closed ultimately by transfer to Profit and Loss. In some cases, such as the purchase of land and buildings, these expenses are capitalised, *i.e.*, added to the cost of the property acquired. In the Double Account System, Law Costs in promoting special Acts of Parliament, etc., appear in the Capital Account.

**LEGAL TENDER.**—This term signifies the current coins or paper money which a creditor is lawfully obliged to accept in payment of a debt. By the Coinage Act, 1870, they are—

(1) Gold, of the full weight, to any amount.

## Ledger.

Dr.	LEGACIES.				Cr.
To Household Furniture left free of duty to Sister .. ..	1,000			By Estate Account ..	19,050
" Cash—					
A. Smith       £9,000					
Less Duty 1%     90	8,910				
F. Smith       £3,000					
Less Duty 5%    150	2,850				
A. Quick       £1,500					
Less Duty 5 %    75	1,425				
B. Eagle       £1,500					
Less Duty 10%   150	1,350				
C. Feathers     £1,500					
Less Duty 10%   150	1,350				
D. Good       £750					
Less Duty 10%   75	675				
P. Peters     £375 0 0					
Less Duty 10%         37 10 0	337 10				
R. Roberts   £375 0 0					
Less Duty 10%         37 10 0	337 10				
" Legacy Duties—					
As above       £765					
On Furniture 5%   50	815				
	19,050				19,050

Dr.	HOUSEHOLD FURNITURE.				Cr.
To Balance .. ..	1,000			By Legacies Account ..	1,000

Dr.	ESTATE ACCOUNT.				Cr.
To Legacies Account ..	19,050			By Balance .. ..	19,050

- (2) Silver up to forty shillings ;
- (3) Bronze coins (pence and halfpence) up to one shilling, farthings up to sixpence.
- (4) Bank of England Notes, in England and Wales, for any amount exceeding £5. They are not legal

tender, however, in Scotland or Ireland, or at the Bank itself. The Bank is bound to pay such notes in gold on demand.

From the use of the word *exceeding*, it follows that a Bank of England Note for £5 is *not* legal tender for a debt of exactly £5. And since cheques are not mentioned in the above list, a cheque is not legal tender. No person can be compelled to give change. Gold coins before the reign of Queen Victoria, and foreign coins, are not legal tender. The gold coinage of colonial mints is made legal tender in the British dominions by Royal Proclamation. Treasury Notes of £1 and 10s. are legal tender for any amount.

**LEGATEE.**—A person to whom personalty is left by will. The terms "*legacy*," "*legatee*," and "*bequeath*" apply, strictly speaking, only to personalty, as opposed to the terms "*devise*" and "*devisee*," which refer properly only to realty.

**LESSEE.**—(See LEASE.)

**LESSOR.**—(See LEASE.)

**LETTER OF ALLOTMENT.**—(See COMPANY.)

**LETTER OF APPLICATION.**—(See COMPANY.)

**LETTER OF HYPOTHECATION.**—(See DOCUMENTARY BILL.)

**LETTER OF REGRET.**—(See COMPANY.)

**LETTERS OF ADMINISTRATION.**—The document given by the Court to an administrator, which authorises him to deal with the estate of a deceased person who has left no will.

**LETTERS PATENT.**—The term applied to the Government document conferring a patent.

**LIABILITIES.**—Debts of a person, firm, or Company.

**Contingent Liabilities.**—(See CONTINGENT.)

**Fixed Liabilities.**—(See DOUBLE ACCOUNT SYSTEM.)

**Floating Liabilities.**—(See DOUBLE ACCOUNT SYSTEM.)

**Gross Liabilities.**—(See STATEMENT OF AFFAIRS.)

**Net Liabilities.**—(See STATEMENT OF AFFAIRS.)

**LIABILITIES ON BILLS DISCOUNTED.**—(See STATEMENT OF AFFAIRS.)

**LIABILITY.**—A debt or obligation.

**Limited Liability.**—(See COMPANY.)

**Unlimited Liability.**—(See COMPANY.)

**LIABILITY OF CUSTOMERS FOR ACCEPTANCES.**—(See ACCEPTANCES ON BEHALF OF CUSTOMERS.)

**LIEN.**—This is a legal right which a person has over goods which do not belong to him. Liens are divided into possessory



and non-possessory, and are either general or particular. There are also maritime liens.

A **Possessory Lien** is the right of a person to hold another's goods in his possession until the other person pays his debt. A **Non-possessory Lien** is the right of a party to call upon the law to apply another person's property (not in the former's possession) in discharge of a debt. This is sometimes called an **Equitable Lien**.

A **General Possessory Lien** covers general indebtedness, as in the case of an agent who holds any goods of his principal. The agent may retain the goods until the general balance of account between themselves is settled. A **Particular Possessory Lien** is a hold on some specific article in connection with which the claim arises; for instance, a carrier who has had goods delivered to him for transport, can retain such goods until his charges are paid. A possessory lien does not give the holder any right to deal with the goods. He has no right of sale, unless such goods are perishable.

A **Maritime Lien** is a hold on a ship for claims against it, such as damages for collision, seamen's wages, salvage, etc.

**LIFE ANNUITIES.**—Those which are payable during people's lifetime, either for the person's own life or for the joint lives of himself and wife. They may be either immediate or deferred.

**LIFE ASSURANCE.**—(See ASSURANCE.)

**LIFE OF AN ASSET.**—(See DEPRECIATION.)

**LIFE POLICY IN PAYMENT OF A DEBT.**—Life policies are frequently accepted in payment of debts, and the method of treating them in the books of account varies considerably. In some cases the policy is surrendered, and the amount received is credited to the Debtor's Account, the difference being written off as a bad debt. In other cases the annual premiums are kept up, and the policy thus prevented from lapsing. A Policy Account is then opened and the amount of the debt transferred to it. This Account is debited with the payment of the annual premium, and should be maintained at surrender value of the policy. To effect this, the difference each year between the amount of the Account and the surrender value of the Policy must be reserved, out of profits, and placed to the credit of a separate account.

**Example.**—R. Roberts, being unable to pay B. Bastien his debt of £1,200 10s. 6d., makes an assignment to him on 1st Jan., 19.., of his Life Policy for £2,000 (without profits).

The policy matures at the age of fifty-five, or death, if that take place previously. The annual premium to keep the policy in force is £100, payable in March, which B. Bastien resolves to continue. The surrender values for the current and following years are £715, £765, £830, £910, and £1,005 respectively. R. Roberts dies just before the end of the sixth year, and the policy money, £2,000, is duly received. Write up the necessary Ledger Accounts in B. Bastien's books.

In B. Bastien's Ledger.

Dr.				R. ROBERTS.				Cr.			
19..				19..							
Jan. 1	To Balance due ..	1,200	10	6	Jan. 1	By Life Policy A/c	1,200	10	6		

Dr.				LIFE POLICY ACCOUNT.				Cr.			
Year				Year							
1	To R. Roberts' Account	1,200	10	6	1	By Balance c/d ..	1,300	10	6		
	„ Cash (Premium) ..	100					1,300	10	6		
		1,300	10	6							
2	To Balance b/d ..	1,300	10	6	2	By Balance c/d ..	1,400	10	6		
	„ Cash ..	100					1,400	10	6		
		1,400	10	6							
3	To Balance b/d ..	1,400	10	6	3	By Balance c/d ..	1,500	10	6		
	„ Cash ..	100					1,500	10	6		
		1,500	10	6							
4	To Balance b/d ..	1,500	10	6	4	By Balance c/d ..	1,600	10	6		
	„ Cash ..	100					1,600	10	6		
		1,600	10	6							
5	To Balances b/d ..	1,600	10	6	5	By Balance c/d ..	1,700	10	6		
	„ Cash ..	100					1,700	10	6		
		1,700	10	6							
6	To Balance b/d ..	1,700	10	6	6	By Cash ..	2,000				
	„ Cash ..	100									
	„ Profit and Loss ..	199	9	6							
		2,000					2,000				

Dr.				LIFE POLICY RESERVE.				Cr.			
Year					Year						
1	To Balance c/d ..	585	10	6	1	By Profit and Loss (£1,300 10s. 6d.— £715) .. ..	585	10	6		
		585	10	6			585	10	6		
2	To Balance c/d .. (£1,400 10s. 6d.— £765)	635	10	6	2	By Balance b/d ..	585	10	6		
		635	10	6		„ Profit and Loss ..	50				
		635	10	6			635	10	6		
3	To Balance c/d .. (£1,500 10s. 6d.— £830)	670	10	6	3	By Balance b/d ..	635	10	6		
		670	10	6		„ Profit and Loss ..	35				
		670	10	6			670	10	6		
4	To Balance c/d .. (£1,600 10s. 6d.— £910)	690	10	6	4	By Balance b/d ..	670	10	6		
		690	10	6		„ Profit and Loss ..	20				
		690	10	6			690	10	6		
5	To Balance c/d .. (£1,700 10s. 6d.— £1,005)	695	10	6	5	By Balance b/d ..	690	10	6		
		695	10	6		„ Profit and Loss ..	5				
		695	10	6			695	10	6		
6	To Profit and Loss ..	695	10	6	6	By Balance b/d ..	695	10	6		

**LIFE-RENTERS.**—(See LIFE TENANT.)

**LIFE-TENANT.**—A person who enjoys, during his lifetime, the income from real estate. In Scotland such persons are called **Life-Renters**. On the death of the life-tenant, the estate goes to the **Remainderman**, likewise called the **Reversioner**. Both terms are also commonly used in reference to personality.

**LIMITED AND REDUCED.**—(See REDUCTION OF CAPITAL.)

**LIMITED BY GUARANTEE.**—(See COMPANY.)

**LIMITED LIABILITY COMPANY.**—(See COMPANY.)

**LIMITED PARTNERSHIP.**—This is a partnership formed under the Limited Partnership Act, 1907. There must be one or more persons, called **general partners**, to be liable for all debts and obligations of the firm, and one or more persons called **limited partners**, who will not be liable for the debts and obligations of the firm beyond the amount of capital they have agreed to contribute.

**LIMIT OF RISK.**—(See ASSURANCE—RE-INSURANCES.)

**LIQUID ASSETS.**—(See ASSETS.)

**LIQUIDATION.**—(See WINDING UP.)

**LIQUIDATOR'S CASH BOOK.**—(See under WINDING UP.)

**LLOYD'S BONDS.**—These bonds, which derive their name from Lloyd, the counsel who invented them, are issued by Railway Companies to contractors for work done. By the Mortgage Debenture Act, which these bonds seek to evade, a Company cannot borrow more than an amount equal to two-thirds of its paid-up Capital. The bonds are ordinary promissory notes payable to bearer, and carry interest. As between the Company and the first holder they are void, as commercial frauds. But a subsequent holder for value, being an innocent party, is held by the Courts to be entitled to recover both principal and interest.

**LOAN CREDITOR.**—A creditor for *money* lent in contradistinction to a trade creditor, that is, a creditor for *goods* supplied. Also called a **Cash Creditor**.

**LOAN ON MORTGAGE.**—For treatment of these in Executorship Accounts see worked example under this heading, and also under Apportionment.

**LOCKE KING'S ACT.**—(See Note under RESIDUARY ACCOUNT.)

**LOOSE LEAF LEDGERS (CARD LEDGERS).**—These are gradually superseding the old type of Ledger in a bound book. The system is very useful where there is a lot of detail work, such as cost accounts and statistical work generally. There are, however, not only advantages but also disadvantages even with this system.

The principal advantages are—

- (1) The Ledgers are continuous, as extra leaves or cards can be added as required.
- (2) There is no necessity for an index, the cards and leaves being in alphabetical order.
- (3) The current ledger need not be cumbered with closed or dead accounts; they can be taken out and filed separately.
- (4) The labour of opening new ledgers, or making new indexes is abolished.
- (5) The work of posting, rendering statements, or taking out balances, can be distributed amongst a number of clerks, thus enabling it to be done much more quickly.

The principal disadvantages are—

- (1) Cards or leaves may be accidentally or purposely destroyed or lost.

- (2) Fresh cards or leaves may be fraudulently substituted for others, in order to prevent corrupt practices being discovered.
- (3) Folios cannot be inserted when posting; as, owing to the fact that fresh leaves or cards are constantly being added, the ledgers themselves have no page numbers.
- (4) The uncertainty as to whether such ledgers would be accepted as evidence in a Court of law, owing to the great possibility of substituting fraudulent cards or leaves.

**LOOSE TOOLS (LOOSE PLANT AND TOOLS).**—For the treatment of these on re-valuation, and as regards depreciation, see under the latter heading.

**LOSS.**—Excess of cost price over selling price.

**Gross Loss.**—Excess of purchases and purchase expenses over sales, as shown by the Trading Account.

**Net Loss.**—(a) Excess of selling expenses over gross profit, or (b) the total of gross loss and selling expenses, as shown by the Profit and Loss Account.

**LOSS AND GAIN ACCOUNT.**—An American term for the English Profit and Loss Account, and, strictly speaking, a more correct one.

**LOSS OF ASSETS BY FIRE OR FLOOD.**—(See **DAMAGE**, also **FIRE ACCOUNT**.)

**L.S.D.**—Letters placed over money columns in English currency, thus, £ s. d. They are the initials of three Latin words (*libra, solidi, denarii*), meaning pounds, shillings and pence respectively.

**MACHINE RATE METHOD.**—(See **DEPRECIATION**.)

**MACHINERY.**—(See **PLANT** and **MACHINERY**.)

**MAINTENANCE RESERVE ACCOUNT.**—A fixed amount of profits reserved each year and allowed to accumulate, in order to equalise the yearly charges for repairs and replacements of plant and machinery. The actual cost of such repairs and replacements is then debited to the Maintenance Account instead of to Profit and Loss. This prevents large sums being debited to Revenue one year, and perhaps trifling sums the next. See also this point under **DOUBLE ACCOUNT SYSTEM**.

The balance of this Account each year will be carried to the Balance Sheet.

**MANAGEMENT SHARES.**—(See COMPANY.)

**MANAGING DIRECTOR'S REMUNERATION—MANAGING DIRECTOR'S SALARY.**—This is the amount payable to the managing director for his services. If the amount is a fixed one, it is charged to the Profit and Loss Account; if it is reckoned by means of a percentage of each year's profits, it goes in the Appropriation Account. It should be noted that this salary is *not preferential* in bankruptcy, as the managing director is not a *servant* of the Company.

**MANUFACTURING ACCOUNT.**—This is an account which precedes the Trading Account in the case of a manufacturing firm or company. Its object is to ascertain the cost of the article or goods manufactured, and with which the company or firm has been trading. The student must remember that only the Raw Materials, and expenses connected with them, go to the Manufacturing Account. Any stocks of the manufactured commodity itself would appear in the Trading Account.

**Example.**—From the following particulars prepare a Manufacturing Account for the year ending 31 Dec., 19...

Stocks at 1st Jan., 19.. —			
Pig Iron .. .. .	27,500	2	6
Limestone .. .. .	175	4	9
Coal and Coke .. .. .	1,650	10	11
Iron Ore .. .. .	1,507	5	8
Purchases during the year—			
Coal and Coke .. .. .	28,250	8	9
Limestone .. .. .	3,500	7	8
Iron Ore .. .. .	15,230	3	5
Sales of Pig Iron during the year .. ..	105,675	10	2
Stocks at 31st Dec., 19.. —			
Iron Ore .. .. .	1,250	6	9
Limestone .. .. .	110	8	11
Coal and Coke .. .. .	1,100	12	5
Pig Iron .. .. .	37,010	16	6
Expenses during the year—			
Furnace Wages .. .. .	8,950	13	4
Carriage Inwards .. .. .	2,350	15	6
Carriage Outwards .. .. .	3,375	12	10
Repairs and Renewals of Furnaces .. ..	2,725	10	9



Dr.		MANUFACTURING ACCOUNT.				Cr.	
19.. Dec. 31	To Amounts consumed—				19.. Dec. 31	By Transfer to Trading A/c (cost of Pig Iron produced) ..	
	Iron Ore ..	15,487	2	4			
	Limestone ..	3,565	3	6			
	Coal & Coke ..	28,800	7	3		61,879	12 8
	" Carriage Inwards ..	2,350	15	6			
	" Furnace Wages ..	8,950	13	4			
	" Repairs and Renewals of Furnaces ..	2,725	10	9			
		61,879	12	8		61,879	12 8

Other common terms for the above account are **Furnaces Account** and **Working Account**. The above information would be obtained from the Ledger Accounts of the Raw Materials, as under—

Dr.		IRON ORE.				Cr.	
19.. Jan. 1	To Balance ..	1,507	5	8	19.. Dec. 31	By Stock c/d ..	1,250 6 9
Jan.-Dec.	" Purchases ..	15,230	3	5	" " " Transfer to Manufacturing A/c (amount consumed)	15,487	2 4
		16,737	9	1		16,737	9 1
19.. Jan. 1	To Balance b/d ..	1,250	6	9			

Dr.		LIMESTONE.				Cr.	
19.. Jan. 1	To Balance ..	175	4	9	19.. Dec. 31	By Stock c/d ..	110 8 11
Jan.-Dec.	Purchases ..	3,500	7	8	" " " Transfer to Manufacturing A/c (amount consumed)	3,565	3 6
		3,675	12	5		3,675	12 5
19.. Jan. 1	To Balance b/d ..	110	8	11			

Dr.		COAL AND COKE.				Cr.	
19.. Jan. 1	To Balance ..	1,650	10	11	19.. Dec. 31	By Stock c/d ..	1,100 12 5
Jan.-Dec.	Purchases ..	28,250	8	9	" " " Transfer to Manufacturing A/c (amount consumed)	28,800	7 3
		29,900	19	8		29,900	19 8
19.. Jan. 1	To Balance b/d ..	1,100	12	5			

The Trading Account would contain the other items, except the Carriage Outwards, which would go to the Profit and Loss Account. Students often experience great difficulty in understanding a Manufacturing Account, and constantly confuse the items of the latter with those of the Trading Account. So, for the sake of clearness, the Trading Account is subjoined—

Dr.		TRADING ACCOUNT.				Cr.	
19..							
Jan. 1	To Stock of Pig Iron ..	27,500	2	6	19..		
Dec. 31	" Amount transferred from Manufacturing A/c (cost of Pig Iron produced) ..	61,879	12	8	Dec. 31	By Sales of Pig Iron ..	105,675 10 2
" "	" Profit & Loss A/c (gross profit) ..	53,306	11	6	" "	" Stock of Pig Iron ..	37,010 16 6
		142,686	6	8			
						142,686	6 8

For examination work, when pressed for time, the student could construct the Manufacturing Account as follows—

Dr.		MANUFACTURING ACCOUNT.				Cr.	
19..					19..		
Jan. 1	To Stocks of Raw Materials—				Dec. 31	By Stocks of Raw Materials—	
	Iron Ore ..	1,507	5	8		Iron Ore ..	1,250 6 9
	Limestone ..	175	4	9		Limestone ..	110 8 11
	Coal & Coke	1,650	10	11		Coal & Coke	1,100 12 5
Jan.-Dec.	" Purchases of ditto—				" "	" Balance transferred to	
	Iron Ore ..	15,230	3	5		Trading A/c (cost of Pig	
	Limestone ..	3,500	7	8		Iron produced) ..	61,879 12 8
	Coal & Coke	28,250	8	9			
Dec. 31	" Carriage Inwards ..	2,350	15	6			
" "	" Furnace Wages	8,950	13	4			
" "	" Repairs and Renewals of Furnaces ..	2,725	10	9			
		64,341	0	9			64,341 0 9

This way would, no doubt, be accepted by the examiner, but the other way would secure higher marks, as being more in accord with actual practice.

**MANUFACTURING CHARGES OR EXPENSES.**—These go to the Manufacturing Account when a separate one is prepared ; but when the Manufacturing Account is combined

with the Trading Account under the latter heading, they are then debited to Trading Account. They are miscellaneous expenses which directly increase the cost of the goods, as, for instance, when chemicals have to be purchased for use in the manufacturing process.

**MANUFACTURING WAGES.**—These are the wages of the factory work-people and staff. They are charged to the Trading Account when a separate Manufacturing Account is not prepared. They are also termed **Productive Wages** and **Remunerative Wages**.

**MARINE INSURANCE FUND.**—A certain amount of profits is appropriated year by year and credited to a Marine Insurance Fund, which is separately invested and allowed to accumulate. All losses and average claims are then debited to this Account instead of to Revenue. The credit balance of the Account from year to year figures on the liabilities side of the Balance Sheet, and the Investments on account of it on the assets side. The object of the Fund is to enable Steamship Companies to insure their own vessels, instead of paying premiums to outside Insurance Companies. When the Fund is in excess of contingencies, the surplus is considered to be profit, divisible like other profits. The annual interest accruing on the Investments is credited to the Fund, and is itself invested each year.

**MARITIME LIEN.**—(See LIEN.)

**MARSHALLING OF ASSETS.**—One meaning of this phrase has been explained under Balance Sheet. The other meaning is, the order in which an executor must apply the legal assets of the estate in payment of the testator's debts. This is as follows—

- (1) Personalty generally.
- (2) Real Estate devised for payment of debts.
- (3) Real Estate not so charged, *i.e.*, descended to the heir.
- (4) Real or Personal Estate devised or bequeathed subject to the payment of debts.
- (5) General Legacies and Annuities.
- (6) Specific Legacies and Devises.
- (7) Real or Personal Estate over which the testator had power of appointment, and which he so appointed by the Will.
- (8) Paraphernalia of the Widow.

And when the legal assets have been so "marshalled," the following is the order in which the debts (after payment of

reasonable funeral and testamentary expenses) are payable—

- (1) Debts due to the Crown, *i.e.*, rates and taxes.
- (2) Debts having priority by special statutes, as liabilities of an official of a Society to the Society, under the Friendly Societies or Savings Bank Acts.
- (3) Judgment Debts and Recognisances.
- (4) Specialty Debts.
- (5) Simple Contract Debts, *i.e.*, ordinary Trade Debts.
- (6) Voluntary Bonds and Covenants.

In connection with the payment of these debts the executor has the rights of preference and retainer. The **right of preference** means that he can pay one creditor, of the same degree, before another. And the **right of retainer** means, that he is entitled to keep back, out of the assets of the testator which come into his hands, the amount of a debt due to himself by the deceased, in priority to any other creditor of an equal degree. An executor ranks as a simple contract creditor, and could not therefore retain against a specialty creditor. An administrator, it should be noted, has no such rights of preference and retainer. The executor, however, cannot exercise his rights out of *equitable*, but only out of *legal* assets.

**Legal Assets** are those which the Creditors can make available, in an action at common law, for the payment of their debts against the deceased. They comprise all personalty of the deceased, the debts due to him ; and all other property which devolves upon his legal personal representative. Out of the *legal* assets, debts are payable in the special statutory order, as previously stated.

**Equitable Assets** are those which the Creditors could have originally made available for the payment of their debts only through a Court of Equity. They include real estate devised for the payment of debts, and property over which the deceased had exercised a power of appointment. Out of *equitable* assets, debts are payable *pari passu*.

**MATERIALS ACCOUNT.**—(See CONTRACTS.)

**MATERIALS CONSUMED.**—When the student finds this item in a Trial Balance, he must remember that the Stocks at start and at finish must *not* appear in the Trading A/c. They have already been taken into consideration in order to obtain the figures for the Materials Consumed. This latter item goes to the debit side of Trading Account, and the Sales

on the credit side, the Stock at finish appearing on the assets side of the Balance Sheet only. (See also **CONTRACTS** and **COST ACCOUNTS**.)

**MATURITY**.—(See **BILL OF EXCHANGE**.)

**MEASURE OF DAMAGES**.—(See **BILL OF EXCHANGE**.)

**MEETINGS OF SHAREHOLDERS**.—(See **COMPANY**.)

**MEMORANDUM OF ASSOCIATION**.—(See **COMPANY**.)

**MERCANTILE DISCOUNT**.—(See **DISCOUNT**.)

**MINE ACCOUNT**.—(See **BRANCH ACCOUNTS—FOREIGN**.)

**MINIMUM BALANCE**.—(See **BANK CURRENT ACCOUNT**.)

**MINIMUM RENT**.—(See **ROYALTIES**.)

**MINIMUM SUBSCRIPTION**.—(See **COMPANY**.)

**MINUTE BOOK**.—(See **COMPANY**.)

**MODELS AND PATTERNS**.—In Engineering firms a separate account is opened for these items, and is debited with all additions, generally made in the works itself. They are either depreciated at a fixed rate on the diminishing value, or they are re-valued each year, and adjustments made accordingly. (See also **LOOSE TOOLS AND PLANT** under **DEPRECIATION**.)

**MONEY ORDER**.—(See **CASH**.)

**MORTGAGE**.—A conveyance of real or personal property by a borrower, called the **Mortgagor**, in favour of a lender, called the **Mortgagee**, by way of security for money borrowed and interest accruing on it. A mortgage of personal property is generally by Bill of Sale. A mortgage is not a first charge in respect of principal, and then a second charge in respect of interest, but a *joint* charge in respect of both. Mortgages are either legal or equitable.

An **Equitable Mortgage** is the mere deposit of title-deeds, with or without a note of the transaction, as security for a temporary loan. Examples of these are (1) when a customer deposits his lease as security for an overdraft; (2) when a person deposits his life policy as security for a loan.

A **Legal Mortgage** is one where the borrower executes a deed conveying to the lender the legal ownership of land as security for a loan.

**Equity of Redemption**.—This is the right of the mortgagor, as per a clause inserted in the deed, to have the property re-conveyed to him on payment of the principal and interest due.

**Foreclosure** is the forfeiture, by taking certain legal steps, of the mortgagor's equity of redemption, after which the



mortgagee becomes the absolute owner of the property in exchange for the debt.

**Right of Sale** is the power, given in the deed to the mortgagee, under which he sells the property, recoups himself for loan, interest and costs, and hands over the balance, if any, to the mortgagor. He can likewise sue the latter for any deficiency; for he does not, as in the case of foreclosure, exchange the debt for the property.

**MORTGAGE DEBENTURES.**—(See COMPANY.)

**First Mortgage Debentures.**—Debentures having a first charge on the property conveyed as security for the loan.

**Second Mortgage Debentures.**—Debentures having a second charge on such property.

**MORTGAGEE.**—(See MORTGAGE.)

**MORTGAGES, CHARGES, ETC.**—(See COMPANY.)

**MORTGAGES, REGISTER OF.**—(See COMPANY and also the ruling below.)

REGISTER OF MORTGAGES AND CHARGES.

No. of Mortgage.	Date Mortgage created.	Mortgagee.		Amount of Mortgage or Charge £ s. d.			Particulars of Property mortgaged or charged.	Rate of Interest.	Remarks.
		Name.	Address.						

**MORTGAGOR.**—(See MORTGAGE.)

**MOTIVE POWER.**—(See COAL AND COKE, GAS AND ELECTRICITY.)

**MULTIPLE COST ACCOUNTS.**—(See COST ACCOUNTS.)

**MULTIPLE SHOP SYSTEM.**—(See BRANCH ACCOUNTS.)

**NARRATION.**—(See JOURNAL.)

**NARRATIVE.**—Same as NARRATION.

**NATIONAL DEBT.**—The English National Debt dates from the reign of William III, who borrowed money to carry on a war with France. It now consists of two parts, funded and unfunded, and the terminable annuities.

**Funded Debt.**—The permanent part of the National Debt, which the Government is under no obligation to repay at any



particular time. It is represented by Consols and the debts due to the Banks of England and Ireland.

**Unfunded or Floating Debt.**—This consists of money borrowed for short periods by the Government, to be paid at certain fixed dates. It includes Exchequer Bonds, Exchequer Bills, and Treasury Bills.

**Terminable Annuities.**—These are annuities granted by the Government, for a term of years, on present payment of a fixed sum of money. They form part of the Funded Debt.

**NEGOTIABLE INSTRUMENTS.**—Partly by custom and partly by statute law certain documents have acquired negotiability. The characteristics of negotiable instruments are—

(1) The property in them, and not merely the possession, passes by delivery.

(2) The holder in due course is not prejudiced by any defects of title on the part of the transferor or any previous holder, even though such prior party may have stolen the document.

(3) The holder can sue upon them in his own name.

If the holder's title can be made good through theft, the document is a negotiable one; if not, it is not negotiable. The following are negotiable instruments: Coins of the realm, Bills of Exchange, Bank Notes, Cheques, Promissory Notes, Dividend Warrants, East India Bonds, Exchequer Bills, Share Warrants, Bonds of foreign and colonial Governments, Bearer Debentures and Scrip.

**Not Negotiable.**—(See AND CO.)

**NET LOSS.**—(See LOSS.)

**NET PROFIT.**—(See PROFIT.)

**NET REVENUE.**—(See DOUBLE ACCOUNT SYSTEM.)

**NO EFFECTS.**—(See CHEQUE.)

**NOMINAL ACCOUNTS.**—(See ACCOUNT.)

**NOMINAL CAPITAL.**—(See COMPANY.)

**NOMINAL LEDGER.**—(See LEDGER.)

**NOMINAL VALUE.**—(See INVESTMENT ACCOUNTS.)

**NON-POSSESSORY LIEN.**—(See LIEN.)

**NOTARY PUBLIC.**—(See BILL OF EXCHANGE.)

**NOTING CHARGES.**—(See BILL OF EXCHANGE.)

**NOT NEGOTIABLE.**—(See AND CO.)

**N/S (NOT SUFFICIENT).**—(See CHEQUE.)

**OBSOLESCENCE.**—(See DEPRECIATION.)

**OFFICE EXPENSES.**—An account opened for miscellaneous expenses pertaining to the "office" as opposed to the "works." Trade Expenses formerly denoted the "works" expenses in contradistinction to the "office" expenses. The distinction seems now to have been lost sight of, the Trade Expenses Account covering all miscellaneous expenses for which it is not worth while opening separate accounts.

**OFFICE FURNITURE.**—That part of the general fixtures, furniture and fittings of the firm which is contained in the office. A separate account is sometimes opened for it. Additions are debited, and depreciation is written off at a fixed annual rate on the diminishing value.

**OFFICIAL RECEIVER.**—The person appointed by the Board of Trade to take charge of the property and moneys of a Debtor against whom a Receiving Order has been made.

**ONCOST.**—(See COST ACCOUNTS.)

**Factory Oncost.**—(See COST ACCOUNTS.)

**General Oncost.**—(See COST ACCOUNTS.)

**ON DEMAND.**—(See BILL OF EXCHANGE.)

**ONE MAN COMPANY.**—(See COMPANY.)

**OPEN ACCOUNT.**—One that is still outstanding

**OPEN CHEQUE.**—(See CHEQUE.)

**OPENING ENTRIES.**—(See BALANCE ACCOUNT.) The modern way is to make only one Journal entry, debiting the assets and crediting the liabilities. The Capital, if not stated, is the excess of the assets over the liabilities. The same Example on page 74 worked in the modern style would appear thus—

JOURNAL.				Dr.		Cr.	
19..							
Jan. 1	Cash .. ..	420					
	Bills Receivable ..	175					
	A. Brown .. ..	240					
	C. Smith.. ..	75					
	P. Jones .. ..	22					
	Stock .. ..	2,500					
	Furniture .. ..	100					
	To Bills Payable ..					225	
	„ R. Sykes .. ..					120	
	„ F. Barron.. ..					85	
	„ Capital .. ..					3,102	
		3,532				3,532	
	for sundry assets and liabilities as at this date.						

Of the above items, the Cash would be entered in the Cash Book, but the remainder in the Ledger. Each of the assets would be posted to its proper account, "*To Balance*"; and each of the liabilities, "*By Balance*."

**OPERATING OR WORKING COSTS.**—(See **COST ACCOUNTS**)

**ORDERS IN HAND.**—(See **WORK-IN-PROGRESS**.) This item is credited to Trading Account underneath the Stock at finish, and debited to a separate account in the Ledger, appearing on the assets side of the Balance Sheet. It represents partly executed work, something neither Stock nor Sales, and hence a special account is opened for it.

**ORDINARY SHARES.**—(See **COMPANY**.)

Deferred Ordinary Shares.—(See **COMPANY**.)

Preferred Ordinary Shares.—(See **COMPANY**.)

**ORGANISATION OF ACCOUNTS.**—(See **INTERNAL CHECK**.)

**OUTPUT.**—The quantity of material or goods manufactured, within a given period, by a factory; or the quantity of ore produced by a mine. It must not be confused with **Turnover**, which relates to the quantity *sold* in a given period.

**OUTPUT COST ACCOUNTS.**—(See **COST ACCOUNTS**.)

**OUTSTANDING EXPENSES—OUTSTANDING LIABILITIES.**—(See **ADJUSTMENTS AT BALANCING TIME**.)

**OVER-CAPITALISED.**—A term used in reference to a Company when the earning capacity is not sufficient to pay interest on the Capital.

**OVERCHARGES.**—(See **ALLOWANCES**, and **CREDIT NOTE**.)

**OVERDRAFT.**—(See **BANK OVERDRAFT**.)

**OVERHEAD CHARGES.**—All items usually charged as extras over the basis price. (See **COST ACCOUNTS**.)

**OVERPAID ROYALTIES ACCOUNT.**—(See **ROYALTY (MINERAL)**.)

**OVERTRADING.**—Trading beyond the Capital embarked in the business or Company, *i.e.*, purchasing beyond the means of payment.

**PACKAGES.**—A separate account is usually opened for these under the most appropriate name, such as Boxes, Cases, Crates, Barrels, Bottles, etc., as the case may be. The account is debited with any fresh purchases, and with returns from customers (if any). It is credited with the value of packages sent out to customers, if the latter are charged for them; the total of the Sales Book, in this case,

would be analysed into so much Sales and so much Packages. At balancing time the stock of packages on hand is valued, and the amount credited to the Packages Account, the difference between the two sides of the latter being then transferred to the debit of Trading Account.

**PACKING MATERIAL.**—This includes Paper, String, Canvas, Straw, and such like things. A separate account is opened for it, to which all purchases thereof are debited. At balancing time the Stock of same is credited to the Account, and the difference, representing cost of material used during the period, is transferred to the debit of Trading Account. In examination work, where no stock is given, the whole is charged to Trading Account.

**PAID-UP CAPITAL.**—(See COMPANY.)

**PAPER AND STRING.**—(See PACKING MATERIAL.)

**PAR.**—Latin word meaning “equal.”

**At Par.**—At an amount equal to the face value. (See COMPANY-ISSUE OF SHARES.)

**Above Par.**—A term used to denote that the market price of stocks or investments is *higher* than the nominal or face value of such securities.

**Below Par.**—A term used to denote that the market price of stocks or investments is *lower* than the nominal or face value of such securities.

**PARI PASSU.**—Latin expression meaning “with equal steps” or “on an equal footing.” The term is used with reference to the distribution of assets or money amongst beneficiaries, creditors or shareholders.

**PARTICULAR LIEN.**—(See LIEN.)

**PARTLY SECURED CREDITORS.**—(See STATEMENT OF AFFAIRS.)

**PARTNERSHIP ACCOUNTS.**—By the Partnership Act, 1890, partnership is the relation which subsists between persons carrying on a business in common with a view to profit.

**Relationships which are not Partnerships.**—The relation between members of any company or association which is—

(a) Registered as a company under the Companies Act, 1862, or any other Act of Parliament for the time being in force and relating to the registration of joint stock companies ; or

(b) Formed or incorporated by or in pursuance of any other Act of Parliament or letters patent, or Royal Charter ;  
or

(c) A company engaged in working mines within and subject to the jurisdiction of the Stannaries: is not a partnership within the meaning of the Act.

**Firm and Firm-Name.**—Persons who have entered into partnership with one another are, for the purposes of the Partnership Act, 1890, called collectively a firm, and the name under which their business is carried on is called the firm-name.

**Prohibition of Large Partnerships.**—No partnership consisting of more than twenty persons can be formed to carry on any business without being registered as a Company under the Companies Acts, 1908 to 1917. In the case of banking business, the number must not exceed ten.

**Difference between an Ordinary Partnership and a Joint Stock Company.**—(See COMPANY.)

**What Constitutes a Partnership.**—In determining whether a partnership does or does not exist, regard must be had to the following rules—

- (1) Joint tenancy, tenancy in common, joint property, common property, or part ownership does not of itself create a partnership as to anything so held or owned, whether the tenants or owners do or do not share any profits made by the use thereof.
- (2) The sharing of gross returns does not of itself create a partnership, whether the persons sharing such returns have or have not a joint or common right or interest in any property from which or from the use of which the returns are derived.
- (3) The receipt by a person of a share of the profits of a business is *prima facie* evidence that he is a partner in the business, but the receipt of such a share, or of a payment contingent on or varying with the profits of a business, does not of itself make him a partner in the business; and in particular—
  - (a) The receipt by a person of a debt or other liquidated amount by instalments or otherwise out of the accruing profits of a business does not of itself make him a partner in the business or liable as such.
  - (b) A contract for the remuneration of a servant or agent of a person engaged in a business by a share of the profits of the business does not of itself make the servant or agent a partner in the business or liable as such.
  - (c) A person being the widow or child of a deceased partner, and receiving by way of annuity a portion of the profits made in the business in which the deceased person was a partner, is not by reason only of such receipt a partner in the business or liable as such.
  - (d) The advance of money by way of loan to a person engaged or about to engage in any business on a contract with that person that the lender shall receive a rate of interest varying with the profits, or shall receive a share of the profits arising from carrying on the business,



does not of itself make the lender a partner with the person or persons carrying on the business or liable as such; provided that the contract is in writing, and signed by or on behalf of all the parties thereto.

- (e) A person receiving by way of annuity or otherwise a portion of the profits of a business in consideration of the sale by him of the goodwill of the business is not by reason only of such receipt a partner in the business or liable as such.

**Kinds of Partners.**—There are different kinds of partners, viz.—

**Acting or Active Partner**, one who actually takes part in the business.

**Dormant or Sleeping Partner**, one who has Capital in the business, but is not actually engaged in it.

**Limited Partner**, one who is a partner under the Limited Partnership Act.

**Quasi Partner**, one who has retired from active participation in the business, but has left his Capital in it as a Loan, receiving interest on it varying with the profits.

**Power of a Partner to Bind the Firm.**—Every partner is an agent of the firm and his other partners for the purpose of the business of the partnership; and the acts of every partner who does any act for carrying on in the usual way business of the kind carried on by the firm of which he is a member, bind the firm and his partners, unless the partner so acting has in fact no authority to act for the firm in the particular matter, and the person with whom he is dealing either knows that he has no authority, or does not know or believe him to be a partner.

**Partner Using Credit of Firm for Private Purposes.**—Where one partner pledges the credit of the firm for a purpose apparently not connected with the firm's ordinary course of business, the firm is not bound, unless he is in fact specially authorised by the other partners.

**Liability of Partners.**—Every partner in a firm is liable jointly with the other partners for all debts and obligations of the firm incurred while he is a partner; and after his death his estate is also severally liable in a due course of administration for such debts and obligations, so far as they remain unsatisfied, but subject to the prior payment of his separate debts.

**Liability of Firm.**—(a) Where one partner acting within the scope of his apparent authority receives the money or property



of a third person and misapplies it ; and (b) where a firm in the course of its business receives money or property of a third person, and the money or property so received is misapplied by one or more of the partners while it is in the custody of the firm, the firm is liable to make good the loss.

**Persons liable by "holding out."**—By Section 14 of the Partnership Act, 1890—

- (1) Every one who by words spoken or written or by conduct represents himself, or who knowingly suffers himself to be represented, as a partner in a particular firm, is liable as a partner to any one who has on the faith of any such representation given credit to the firm, whether the representation has or has not been made or communicated to the person so giving credit by or with the knowledge of the apparent partner making the representation or suffering it to be made.
- (2) Provided that where after a partner's death the partnership business is continued in the old firm-name, the continued use of that name or of the deceased partner's name as part thereof shall not of itself make his executors' or administrators' estate or effects liable for any partnership debts contracted after his death.

**Liabilities of Incoming and Outgoing Partners.**—By Section 7 of the Act—

- (1) A person who is admitted as a partner into an existing firm does not thereby become liable to the creditors of the firm for anything done before he became a partner.
- (2) A partner who retires from a firm does not thereby cease to be liable for partnership debts or obligations incurred before his retirement.
- (3) A retiring partner may be discharged from any existing liabilities, by an agreement to that effect between himself and the members of the firm as newly constituted and the creditors, and this agreement may be either express or inferred as a fact from the course of dealing between the creditors and the firm as newly constituted.

**Variation of Terms of Partnership.**—The mutual rights and duties of partners, whether ascertained by agreement or defined by the Partnership Act, may be varied by the consent of all the partners, and such consent may be either express or inferred from a course of dealing.

**Partnership Property.**—By Section 20 of the Act—

All property and rights and interests in property originally brought into the partnership stock or acquired, whether by purchase or otherwise, on account of the firm, or for the purposes and in the course of the partnership business, are called in this Act partnership property, and must be held and applied by the partners exclusively for the purposes of the partnership and in accordance with the partnership agreement.

Unless the contrary intention appears, property bought with money belonging to the firm is deemed to have been bought on account of the firm.

**Rights and Duties of Partners.**—By Section 24 of the Act, the interests of partners in the partnership property, and their rights and duties in relation to the partnership shall be determined, subject to any agreement express or implied between the partners, by the following rules—

- (1) All the partners are entitled to share equally in the capital and profits of the business, and must contribute equally towards the losses whether of capital or otherwise sustained by the firm.
- (2) The firm must indemnify every partner in respect of payments made and personal liabilities incurred by him—
  - (a) In the ordinary and proper conduct of the business of the firm ; or,
  - (b) In or about anything necessarily done for the preservation of the business or property of the firm.
- (3) A partner making, for the purpose of the partnership, any actual payment or advance beyond the amount of capital which he has agreed to subscribe, is entitled to interest at the rate of five per cent. per annum from the date of the payment or advance.
- (4) A partner is not entitled, before the ascertainment of profits, to interest on the capital subscribed by him.
- (5) Every partner may take part in the management of the partnership business.
- (6) No partner shall be entitled to remuneration for acting in the partnership business.
- (7) No person may be introduced as a partner without the consent of all existing partners.
- (8) Any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the partners, but no change may be made in the nature of the partnership business without the consent of all existing partners.
- (9) The partnership books are to be kept at the place of business of the partnership (or the principal place, if there is more than one), and every partner may, when he thinks fit, have access to and inspect and copy any of them.

**Expulsion of Partner.**—No majority of the partners can expel any partner unless a power to do so has been conferred by express agreement between the partners.

**Duration of Partnership at Will.**—Where no fixed term has been agreed upon for the duration of the partnership, any partner may determine the partnership at any time on giving notice of his intention so to do to all the other partners. Where the partnership has originally been constituted by deed, a notice in writing, signed by the partner giving it, is sufficient.

Where a partnership entered into for a fixed term is continued after the term has expired, and without any express new agreement, the rights and duties of the partners remain the same as they were at the expiration of the term, so far as is consistent with the incidents of a partnership at will. A continuance of the business by the partners or such of them as habitually acted therein during the term, without any settlement or liquidation of the partnership affairs, is presumed to be a continuance of the partnership.

**Duties of Partners towards the Firm.**—Partners are bound to render true accounts and full information of all things affecting the partnership to any partner or his legal representatives.

Every partner must account to the firm for any benefit derived by him without the consent of the other partners from any transaction concerning the partnership, or from any use by him of the partnership property, name or business connection.

If a partner, without the consent of the other partners, carries on any business of the same nature as and competing with that of the firm, he must account for and pay over to the firm all profits made by him in that business.

**Partnership Deed.**—There may be, and often are, “partnerships at will” without the existence of any deed or written agreement. Owing to the conflicting legal interpretations of the Partnership Act, however, a deed should be drawn up and the following matters dealt with specifically—

- (1) The amount of Capital each partner is to contribute, and whether the amount is to be fixed or not.
- (2) How profits and losses are to be shared, including Capital profits and losses.
- (3) The amount each partner is to be allowed to draw.
- (4) Whether Interest is to be allowed on Capital and charged on Drawings, and at what rate.
- (5) Whether Drawings, Profits and Losses, and Interest are to be dealt with in separate Current Accounts, or merged finally into the Capital Accounts.
- (6) Whether the balances of the partners' Current Accounts are to be charged or credited with Interest, and at what rate.
- (7) That a Profit and Loss Account and Balance Sheet be drawn up each year, and audited by a professional accountant; and that such Balance Sheets be signed by all the partners and be binding on them, unless a manifest error is discovered within six months afterwards.
- (8) In the case of Policies of Survivorship Insurance being taken out, how the premiums are to be dealt with, and how the Policy Money is to be divided when received.

- (9) The method of arriving at the amount of Goodwill in the case of the death or retirement of any of the partners.
- (10) The method of arriving at the amount payable on the death or retirement of a partner—whether he is to be entitled to his Capital, as per the last Balance Sheet, plus a higher rate of Interest to date of death or retirement in lieu of profits, or whether fresh accounts are to be prepared up to date of death or retirement, and whether the partnership assets are to be re-valued for this purpose.
- (11) That in the event of the death of a partner, his Capital should remain in the business as a Loan bearing interest, and be repayable by easy instalments, so as to prevent the business being crippled by a large withdrawal of funds.

**Fixed Capital Accounts.**—In practice it is usual for the amounts of the partners' capitals to be fixed by the partnership deed. The Capital Accounts, therefore, remain at the same figure during the partnership. Partners' Salaries, Profits, and Interest on Capital are not shown in the Capital Accounts but in separate Current or Drawing Accounts, the balances of which are carried to the Balance Sheet, and in some cases bear interest. A distinction is thus made and maintained between Original Capital and Undrawn Profits. The difference between the two methods can easily be seen from the example on opposite page, which represents the liabilities side of a Balance Sheet drawn up both ways.

**Partners' Advances.**—Any further sums of money advanced by a partner to the firm will be by way of Loan rather than Capital, inasmuch as Partners' Loans have priority of repayment over Partners' Capital in the event of a winding up. The interest on such loans, unless paid in cash, should therefore be credited to the Partner's Loan or Current Account, and not to his Capital Account.

**Partners' Salaries.**—Where some of the partners devote the whole of their time to the business while the others do not, it is usual to allow the former a salary before ascertaining the net profit. The practice also obtains where there are junior partners who, having little or no capital in the firm and taking only a small share of the profits, would otherwise derive insufficient remuneration from the business for their services to it. The salary is sometimes drawn out in cash, and sometimes credited to the Partner's Capital Account, according to the agreement.

**Interest on Capital.**—It becomes necessary to allow interest on partners' capitals at times in order to adjust their rights as between themselves. Where partners share equally in

## (2) ALTERNATIVE METHOD.

## (1) FIXED CAPITAL METHOD.

<i>Liabilities.</i>												<i>Liabilities.</i>																							
Bills Payable ..												Bills Payable ..																							
Sundry Creditors ..												Sundry Creditors ..																							
Outstanding Expenses												Outstanding Expenses																							
Loan A/c, Hamos												Loan A/c, Hamos																							
Current A/c, Hamos												Loan A/c, Hamos																							
Share of Profit <sup>14</sup>												Interest accrued																							
Interest on Capital ..												Interest accrued																							
Interest on Loan ..												Interest accrued																							
Less Drawings												Capital A/cs—																							
Current A/c, Gabriel—												Hamos, 1st Jan.																							
Share of Profit ..												Add Interest ..																							
Interest on Capital ..												" Share of Profit																							
Less Drawings												Less Drawings																							
Capital A/cs—												Gabriel, 1st Jan.																							
Hamos												Add Interest ..																							
Gabriel												" Share of Profit ..																							
												Less Drawings																							



the profits but have unequal capitals, the partner with the smaller capital would otherwise gain at the expense of the other ; and where the partners have equal capitals but share profits unequally, the partner who takes the larger share of profits would otherwise get an advantage over the other. The Interest is debited to Profit and Loss and credited to the Capital or Current Accounts as the case may be.

**Interest on Drawings.**—In many cases interest is not chargeable on Drawings, the reason being that the Drawings are not out of Capital but on account of profits which are accruing. Where, however, partners withdraw Capital sums interest is charged. It is also necessary to charge Interest on Drawings where partners, who are equal as regards capital and share of profits, draw out *unequal* sums, in order to adjust the rights of the partners *inter se*, that is, to prevent one partner getting any advantage over the others.

**Goodwill and Incoming Partners.**—It is usual to charge an incoming partner a premium for goodwill. The method of treating same in the books of account varies considerably. Sometimes a Goodwill Account is raised, the amount being credited to the old partners in the proportion in which they share profits and losses. In some cases the premium is paid into the business and is drawn out again in cash by the partners entitled to it ; in other cases the premium paid in by the new partner is left in the business, being credited in the proper proportions to the old partners' Capital Accounts. Sometimes the premium is paid to the old partners direct by means of a separate cheque, and, in these instances, it does not appear in the partnership books at all. It is to the advantage of the incoming partner that the payment of a premium for goodwill should be shown in the partnership books, and thus ensure there being a permanent record of it, in order to facilitate matters if he should retire and require payment to him of a similar sum. It is also to the advantage of the new partner that the premium he pays on admission should not be drawn out again, but left in the business, so that the latter shall derive some benefit from it.

**Example 1.**—R. W. Goodman and F. L. Butler are in partnership sharing profits and losses three-fifths and two-fifths respectively. They agree to admit F. G. Rowe as a partner with a fifth share on condition that he brings in £2,300 Capital, and that the old partners are credited with their respective shares of the Goodwill estimated at £1,500.



Goodman and Butler, as between themselves, are to share profits and losses in the same ratio as before. Make the necessary entries in the books, and state the partners' future proportions of profit respectively.

JOURNAL.	Dr.	Cr.
Goodwill .. .. .	1,500	
To R. W. Goodman, $\frac{3}{5}$ ths		900
" F. L. Butler, $\frac{2}{5}$ ths..		600
for partners' respective shares of Goodwill created on admission of F. G. Rowe.		

Dr.	CASH BOOK.	Cr.
To F. G. Rowe (Capital A/c)	2,300	

As Rowe takes one-fifth of the profits, four-fifths will remain, and the partners' shares will be as follows—

Goodman will receive	$\frac{3}{5}$	of	$\frac{4}{5}$	or	$\frac{12}{25}$ ,
Butler	"	"	$\frac{2}{5}$	of	$\frac{4}{5}$ or $\frac{8}{25}$ ,
Rowe	"	"	$\frac{1}{5}$	or	$\frac{5}{25}$ .

**Example 2.**—P. R. W. Perry and F. C. Best are in partnership sharing profits and losses two-thirds and one-third respectively. They agree to admit H. B. Johnson as a partner on condition that he brings into the business £2,000 Capital and pays them a premium of £300 for a fifth share in the profits. Make the necessary entries in the books.

Dr.	CASH BOOK.	Cr.
To H. B. Johnson (Capital A/c)	2,000	

As only £2,000 was brought into the business, a separate cheque would be handed to Perry and Best for the premium.

**Example 3.**—P. Perry and L. Wagstaff are in partnership sharing profits and losses two-thirds and one-third respectively. They agree to admit H. Johnson as a partner on condition that he brings into the business £2,300, £300 of which is to be regarded as premium for admission, but is to be paid out to the partners in the proportions in which they are entitled to share it. Make the necessary entries in the books.

Dr.		CASH BOOK.		Cr.	
To H. Johnson (Capital A/c)	2,000		By P. Perry Capital A/c (Share of Premium withdrawn)	200	
„ P. Perry Capital A/c ( $\frac{1}{2}$ of H. Johnson's Premium, £300) .. .. .	200		„ L. Wagstaff Capital A/c (Share of Premium withdrawn) .. .. .	100	
„ L. Wagstaff Capital A/c ( $\frac{1}{2}$ of H. Johnson's Premium, £300) .. .. .	100				

In this case the money brought in by Johnson must be split up, the Capital being separated from the Premium, which belongs to the old partners, and must be credited to their Capital Accounts in the same proportion as that in which they are entitled to share profits.

**Example 4.**—F. W. Ridoutt and A. H. Martin are in partnership sharing profits and losses two-thirds and one-third respectively. They agree to admit C. Spedding as a partner on condition that he brings in £2,300, £300 of which is to be regarded as premium for Goodwill; the money, however, is to remain in the business. Make the necessary entries in the books.

Dr.		CASH BOOK.		Cr.	
To C. Spedding (Capital A/c)	2,000				
„ F. W. Ridoutt (Capital A/c)	200				
„ A. H. Martin (Capital A/c)	100				

**Example 5.**—H. Longhurst agrees to admit R. Newell into partnership on the following terms :—(a) That Newell brings £2,400 Capital in Cash into the business; (b) That £400 is to be paid out to Longhurst and is to appear in the books of the partnership as Goodwill. Make the necessary entries in the books.

Dr.		CASH BOOK.		Cr.	
To R. Newell (Capital A/c)	2,400		By Goodwill A/c (amount paid out to H. Longhurst)	400	

**Adjustment of Assets on Admission of Partner.**—It often happens, when a new partner is admitted, that the assets of the business are re-valued, any appreciation or depreciation being adjusted in the old partners' Capital Accounts. A new partner may also bring into the partnership other assets besides Cash, namely, Book Debts, Plant, etc., and the Goodwill of his own connection.

**Example.**—T. Bayes and W. Marshman are partners in a Coal Business, sharing profits and losses equally. On 31st Dec., 19.. their Capitals stood at £3,250 and £2,750 respectively. The firm's assets and liabilities on the same date were

as follows :—Coal Trucks £980 ; Furniture and Fittings £370 ; Sundry Creditors £920 ; Cash at Bank £1,200 ; Carts, Plant and Horses £496 ; Bills Payable £675 ; Sundry Debtors £3,880 ; Cash in hand £29 ; and stock of Coal £640. They agree to take into partnership E. A. Shepherd, a colliery agent, as and from 1st Jan., 19.., on the following terms :—Profits and losses to be shared, Bayes two-fifths, Marshman two-fifths, and Shepherd one-fifth. Shepherd is to bring into the firm Sundry Debtors amounting to £600 (less a Reserve of 5 per cent. for Bad Debts), and the Goodwill of his connection estimated at £330. His Capital in the new business is to be £1,200, the balance of which he is to pay in Cash on 1st Jan., 19... It was also agreed between them that the following adjustments should be made as regards the business of Bayes and Marshman :—Coal Trucks to be taken at £1,020, and Carts, Plant and Horses at £530, the values placed on them by a public valuer ; a Bad Debts Reserve of 5 per cent. of the Sundry Debtors to be created ; the Goodwill to be valued at £500 ; and Bayes to be paid out from the Bank balance such a sum as will reduce his Capital to the same amount as Marshman's. Make the necessary entries in the subsidiary books to carry out the above agreement, and show the Balance Sheet of the new firm prior to commencing business.

### In Bayes and Marshman's Books.

JOURNAL.		Dr.	Cr.	
19..				
Jan. 1	Sundry Debtors .. ..	600		
	Goodwill .. ..	330		
	To Bad Debts Reserve			30
	„ E. A. Shepherd			
	(Capital A/c) ..			900
	for assets brought in by			
	Shepherd.			
	Coal Trucks .. ..	40		
	Carts, Plant, and Horses	34		
	Goodwill .. ..	500		
	To Bad Debts Reserve			194
	„ T. Bayes (Capital			
	Account) ..			190
	„ W. Marshman			
	(Capital Account)			190
	for net gain to Bayes and			
	to Marshman on the			
	re-valuation of their			
	assets.			

<i>Dr.</i>	CASH BOOK.		<i>Cr.</i>
To Balance .. .. .	1,200	By T. Bayes' Capital A/c (amount withdrawn by him to reduce his Capital, £3,440, to the same amount as W. Marshman, £2,940) .. .. .	500
„ E. A. Shepherd Capital A/c (amount paid in by him to raise his Capital from £900 to £1,200) ..	300		

## BALANCE SHEET AS AT 1ST JAN., 19..

<i>Liabilities.</i>		<i>Assets.</i>	
Capital Accounts—		Coal Trucks .. .. .	1,020
T. Bayes .. .. .	£2,940	Carts, Plant, and Horses ..	530
W. Marshman .. .. .	2,940	Furniture and Fittings ..	370
E. A. Shepherd .. .. .	1,200	Goodwill .. .. .	830
	7,080	Coal .. .. .	640
Sundry Creditors .. .. .	920	Debtors .. .. .	£4,480
Bills Payable .. .. .	675	Less Reserve .. .. .	224
			4,256
		Cash in hand .. .. .	£29
		Cash in Bank .. .. .	1,000
			1,029
	£ 8,675		£ 8,675

**Guarantee of Assets and Liabilities—Preferential Claim on First Year's Profits.**—It often happens that an incoming partner requires the assets and liabilities, as shown by the firm's Balance Sheet, to be guaranteed, in order to protect himself against errors that may subsequently be discovered. Should a Liability have been omitted or under-estimated, the loss arising from it will not therefore be borne by the new partner, but solely by the old partners. Should discounts and bad debts arise in connection with the Debtors in excess of what has been provided for, the new partner will not therefore share in such losses, which will be debited to the old partner's Capital Accounts, and not to the firm's Profit and Loss Account.

On the other hand, there are sometimes profits accruing on work in progress, or orders in hand, which the old partners justly require to be reserved entirely for themselves. Such profits will therefore be credited, in their proper proportions, to the Capital Accounts of the old partners, and not to the Profit and Loss Account of the firm. In some cases, however, an arrangement is made whereby the old partners become, in respect of such accruing gains, entitled to a preferential claim of a fixed amount on the first year's profits.

**Goodwill and Outgoing Partners.**—On the death or retirement of a partner his share of the Goodwill has to be valued, and the amount is arrived at according to the terms of the partnership deed; or if no arrangement has been made, then the Goodwill of the firm is valued, and of this amount a proportion, the same in which he shares profits, is then credited to the said partner's Capital Account. Instead of the partner's share of the Goodwill, an annuity, or a percentage of the profits for a certain number of years, is sometimes paid to the deceased partner's representatives.

**Policies of Survivorship Assurance.**—Partners often assure themselves either jointly or severally as a means of obtaining the necessary Cash to pay out a deceased partner's share of the Capital and Goodwill. This prevents any financial difficulties when such a necessity arises. The premiums paid are debited to Profit and Loss as a business expense, and on the death of a partner, the Cash received for the Policy is debited in the Cash Book and credited to the partners' Capital Accounts (including the account of the deceased partner), in the same proportion as they share profits. The Cash is then in hand with which to make the required payment. If desired, a Policy Account may be opened, and dealt with in a similar way to that described under the Insurance Policy Method of depreciation.

**Example.**—L. Wagstaff and M. Mountjoy are in partnership sharing profits and losses three-fifths and two-fifths respectively. In order to provide money for repayment of their share of the Capital and Goodwill in the event of death, they assure their lives jointly for £10,000, paying an annual premium of £400, which is debited to the firm's Profit and Loss Account each December. Mountjoy dies on the last day of June 19... The partnership deed provides that his representatives are to receive his Capital, as per the last Balance Sheet, plus interest at 5 per cent. per annum to date of death, and his share of the profits to date of death, estimated according to the profits of the preceding year. They are also to receive his share of the Goodwill, estimated at two years' purchase of the average net profits of the last three years, before charging the insurance premiums. The net profits for the last three years after charging the insurance premiums were £2,100, £2,600, and £2,200 respectively. Mountjoy's Capital, as per last Balance Sheet was £3,000, and his Drawings to date of death amount to £850. Make the necessary





is payable by annual instalments of £2,000, interest at 5 per cent. per annum being charged on the outstanding balance. Show the Ledger Account in the firm's books.

Dr		M. MOUNTJOY (DECEASED) LOAN ACCOUNT.						Cr.	
Year						Year			
1	To Cash..	..	1,000			1	By Balance due	..	8,825
	" Balance c/d	..	8,045	12	6		" Interest 6 mos.	..	220
			9,045	12	6				9,045
2	To Cash..	..	2,000			2	By Balance b/d	..	8,045
	" Balance c/d	..	6,447	18	1		" Interest 1 year	..	402
			8,447	18	1				8,447
3	To Cash..	..	2,000			3	By Balance b/d	..	6,447
	" Balance c/d	..	4,770	6			" Interest year	..	322
			6,770	6					6,770
4	To Cash..	..	2,000			4	By Balance b/d	..	4,770
	" Balance c/d	..	3,008	16	3		" Interest 1 year	..	238
			5,008	16	3				5,008
5	To Cash	..	2,000			5	By Balance b/d	..	3,008
	" Balance c/d	..	1,159	5	1		" Interest 1 year	..	150
			3,159	5	1				3,159
6	To Cash.	..	1,217	4	4		By Balance b/d	..	1,159
			1,217	4	4		" Interest ..	..	57
									1,217

Repayment of Outgoing Partner's Share with Interest from date of Realisation of Assets.—Although, by law, interest ceases at the date of dissolution, yet it frequently happens that the continuing partner agrees to pay the outgoing partner his share by instalments with interest as and from the date of realisation of the assets. In some cases the average date is ascertained, and interest calculated from this date. The account then takes the form of an Account Current.

**Example.**—Fagan and Wegner are in partnership sharing profits and losses equally. Fagan agrees to buy out Wegner, and the position of affairs on this date is as on next page.

## BALANCE SHEET AS AT 1ST JAN., 19..

<i>Liabilities.</i>				<i>Assets.</i>			
Sundry Creditors	..	..	1,050	Sundry Debtors	..	..	4,500
Capital A/cs—				Office Furniture	..	..	350
Fagan	..	..	3,100	Cash	..	..	1,400
Wegner	..	..	2,100				
			£ 6,250				£ 6,250

Fagan is to take over the Office Furniture at £300, to allow Wegner £650 for his share of the Goodwill, and to pay him his proportion as and when realised, interest to be taken into account at 5 per cent. per annum. A loss of £200 is sustained on the Sundry Debtors, and a discount of £50 obtained from the Creditors. The latter were paid at an average date of four months, and the Debtors were realised at an average date of eight months from the date of dissolution. Fagan paid Wegner £600 on 1st March, £600 on 1st June, £600 on 1st Sept., and the balance on 31st Dec. Draw up the Account Current between Fagan and Wegner, and show the final payment made to Wegner on 31st Dec.

## Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT, 1ST JAN., 19.. Cr.

To Bad Debts (loss)	..	200		By Discount on Crs.			
„ Furniture (loss)	..	50		(gain)	..	50	
				„ Capital A/cs—			
				Fagan $\frac{1}{2}$	..	£100	
				Wegner $\frac{1}{2}$	..	100	
						200	
		250				250	

## ADJUSTED BALANCE SHEET, 1ST JAN., 19..

<i>Liabilities.</i>				<i>Assets.</i>			
Sundry Creditors	..	..	1,000	Sundry Debtors	..	..	4,300
Capital A/cs—				Office Furniture	..	..	300
Fagan	..	..	3,000	Cash	..	..	1,400
Wegner	..	..	2,000				
			6,000				6,000

Although Fagan and Wegner share profits and losses, including profits and losses on realisation of the assets, *equally*, yet the actual assets themselves, as per the Balance Sheet, belong to the partners in the proportion that their Capitals bear to the total capital, namely three-fifths and two-fifths respectively.



**Repayment of Outgoing Partner's Share by means of an Annuity.**—On the death or retirement of a partner, his share of the Capital and Goodwill is sometimes paid out by means of an annuity for a limited number of years, or for his lifetime, or for the joint lives of himself and wife.

In such cases the total amount due will be credited to a separate account in the name of the annuitant. This account will be credited each year with interest at an agreed rate on the diminishing balance, and debited each year with the payment of the annuity. The amount of the latter will be ascertained from Annuity Tables. If before the expiration of the annuity, this account is extinguished, all future payments of the annuity will be debited to Profit and Loss as a sustained loss ; on the other hand, if the annuity terminates before this credit sum is exhausted, the balance will be transferred to Profit and Loss as a realised gain. Until the account is finally closed, the balance of it will appear each year on the liabilities side of the Balance Sheet.

**Dissolution of Partnership.**—Subject to any agreement between the partners, a partnership is dissolved—

- (a) If entered into for a fixed term, by the expiration of that term.
- (b) If entered into for a single adventure or undertaking, by the termination of that adventure or undertaking.
- (c) If entered into for an undefined time, by any partner giving notice to the other or others of his intention to dissolve the partnership.

In the last-mentioned case the partnership is dissolved as from the date mentioned in the notice as the date of dissolution, or, if no date is so mentioned, as from the date of the communication of the notice.

**Dissolution by Bankruptcy, Death, Charge, or Illegality.**—Subject to any agreement between the partners, every partnership is dissolved as regards all the partners by the death or bankruptcy of any partner.

A partnership may, at the option of the other partners, be dissolved if any partner suffers his share of the partnership property to be charged under this Act for his separate debt.

A partnership is in every case dissolved by the happening of any event which makes it unlawful for the business of the firm to be carried on or for the members of the firm to carry it on in partnership.

**Dissolution by the Court.**—On application by a partner

the Court may decree a dissolution of the partnership in any of the following cases—

- (a) When a partner is found lunatic by inquisition, or in Scotland by cognition, or is shown to the satisfaction of the Court to be of permanently unsound mind, in either of which cases the application may be made as well on behalf of that partner by his committee or next friend or person having title to intervene as by any other partner.
- (b) When a partner, other than the partner suing, becomes in any other way permanently incapable of performing his part of the partnership contract.
- (c) When a partner, other than the partner suing, has been guilty of such conduct as, in the opinion of the Court, regard being had to the nature of the business, is calculated to prejudicially affect the carrying on of the business.
- (d) When a partner, other than the partner suing, wilfully or persistently commits a breach of the partnership agreement, or otherwise so conducts himself in matters relating to the partnership business that it is not reasonably practicable for the other partner or partners to carry on the business in partnership with him.
- (e) When the business of the partnership can only be carried on at a loss.
- (f) Whenever in any case circumstances have arisen which, in the opinion of the Court, render it just and equitable that the partnership be dissolved.

**Notice of Dissolution or Change.**—Where a person deals with a firm after a change in its constitution he is entitled to treat all apparent members of the old firm as still being members of the firm until he has notice of the change.

“An advertisement in the *London Gazette* as to a firm whose principal place of business is in England or Wales, in the *Edinburgh Gazette* as to a firm whose principal place of business is in Scotland, and in the *Dublin Gazette* as to a firm whose principal place of business is in Ireland, shall be notice as to persons who had no dealings with the firm before the date of the dissolution or change so advertised.”

**Continuing Authority of Partners for Winding-up Purposes.**—After the dissolution of a partnership the authority of each partner to bind the firm, and the other rights and obligations of the partners, continue notwithstanding the dissolution so far as may be necessary to wind up the affairs of the partnership, and to complete transactions begun but unfinished at the time of the dissolution, but not otherwise.

Provided that the firm is in no case bound by the acts of a partner who has become bankrupt ; but this proviso does not affect the liability of any person who has after the bankruptcy



represented himself or knowingly suffered himself to be represented as a partner of the bankrupt.

**Rule for Distribution of Assets.**—By Section 44 of the Partnership Act, 1890, in settling accounts between the partners after a dissolution of partnership, the following rules must, subject to any agreement, be observed—

- (a) Losses, including losses and deficiencies of capital, shall be paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually in the proportion in which they were entitled to share profits.
- (b) The assets of the firm including the sums, if any, contributed by the partners to make up losses or deficiencies of capital, shall be applied in the following manner and order—
  - (1) In paying the debts and liabilities of the firm to persons who are not partners therein.
  - (2) In paying to each partner rateably what is due from the firm to him for advances as distinguished from capital.
  - (3) In paying to each partner rateably what is due from the firm to him in respect of capital.
  - (4) The ultimate residue, if any, shall be divided among the partners in the proportion in which profits are divisible.

**Realisation Account.**—On dissolution, a Realisation Account is opened in the books, debited with the total of the various assets (except Cash or a debit balance of any of the Capital Accounts), and credited with the Cash received for the assets. If, however, any of the assets are not sold, but taken over by one of the partners, then such partner's Capital Account must be debited and the Realisation Account credited with the agreed amount. The balance of the Realisation Account, after debiting the Expenses of Winding Up, will show a profit or loss, which is credited or debited to the various partners' Capital Accounts in the same proportion as a profit or loss on trading. The balance of the Cash Book, after paying off Creditors and Partners' Loans (if any), should exactly equal the total of the balances of the various Capital Accounts, provided they are in credit. Should, however, one or more of them be in debit, the partner or partners must repay to the firm their indebtedness. If one of the partner's Capital Accounts is in debit, it can be made good by a transfer from his Loan Account, if he has one

**Garner v. Murray.**—Whenever a partner is unable to repay to the firm his indebtedness, the ruling of *Garner v. Murray* must be applied. This decision by Mr. Justice Joyce, in November, 1903, was that the solvent partners are only liable to make good their share of the deficiency, and that the



remaining assets should be divided among them in proportion to their Capitals. After considerable discussion and controversy, it is thought that the correct interpretation of this ruling is for the solvent partners *to bring in Cash* to meet their share of the loss on realisation.

### (1) Profit on Realisation.

**Example.**—Brown and Jones are in partnership sharing profits and losses two-thirds and one-third respectively. The state of affairs at the date of dissolution is as follows—

#### BALANCE SHEET.

<i>Liabilities.</i>				<i>Assets.</i>			
Sundry Creditors	..	..	2,500	Cash	..	..	850
Capital A/cs—				Sundry Debtors	..	..	2,040
Brown	..	..	4,060	Stock	..	..	4,160
Jones	..	..	2,030	Fixtures and Fittings..	..	..	1,540
			8,590				8,590

The Fixtures and Fittings are taken over by Brown at the agreed price of £1,500. The Debtors and Stock realise £7,140, and the expenses of winding up are £120. Close the books of the firm, showing the Ledger Accounts.

#### Dr. REALISATION ACCOUNT. Cr.

To Sundry Assets	..	7,740	By Cash	..	7,140
" Cash (Expenses)	..	120	" Brown (Capital A/c)—		
" Balance (profit)—			Fixtures taken over as		
Brown $\frac{2}{3}$	..	£520	agreed	..	1,500
Jones $\frac{1}{3}$		260			
		780			
		8,640			8,640

#### Dr. CASH BOOK. Cr.

To Balance	..	850	By Realisation A/c (Expenses)	120
" Realisation A/c—			" Sundry Creditors	..
Proceeds of Sale of			Balance—	
Assets	..	7,140	Brown	..
			Jones	..
		7,990		3,080
				2,290
				7,990

#### Dr. SUNDRY CREDITORS. Cr.

To Cash..	..	2,500	By Balance	..	2,500
-----------	----	-------	------------	----	-------

Dr.		BROWN (CAPITAL ACCOUNT).				Cr.	
To Fixtures, etc. ..	1,500			By Balance ..	4,060		
„ Cash .. ..	3,080			„ Realisation A/c—			
				Profit .. ..	520		
	4,580				4,580		

Dr.		JONES (CAPITAL ACCOUNT).				Cr.	
To Cash .. ..	2,290			By Balance ..	2,030		
				„ Realisation A/c—			
				Profit .. ..	260		
	2,290				2,290		

## (2) Loss on Realisation.

**Example.**—Brown and Jones are in partnership sharing profits and losses two-thirds and one-third respectively. The following is the state of affairs at the date of dissolution.

## BALANCE SHEET.

Liabilities.				Assets.			
Sundry Creditors ..	2,500			Cash .. ..	850		
Brown Loan A/c ..	1,000			Sundry Debtors ..	2,040		
Capital A/cs—				Stock .. ..	3,160		
Brown .. ..	3,060			Fixtures and Fittings..	1,540		
Jones .. ..	2,030			Goodwill .. ..	1,000		
	8,590				8,590		

The Debtors, Stock, Fixtures and Fittings realise £6,339, and the expenses of winding up are £120. During the realisation, events actualise a contingent liability of £150, which has therefore to be paid in addition to the other creditors. Close the books of the firm, showing the Ledger Accounts.

Dr.		REALISATION ACCOUNT.				Cr.	
To Sundry Assets ..	7,740			By Cash (Proceeds of Sale of Assets) ..	6,339		
„ Cash (Expenses) ..	120			„ Balance (loss)—			
„ Cash (Contingent Liability) .. ..	150			Brown $\frac{2}{3}$ £1,114			
				Jones $\frac{1}{3}$ 557			
	8,010				1,671		
					8,010		

Dr.		CASH BOOK.		Cr.	
To Balance .. .. .	850		By Realisation A/c (Expenses)	120	
" Realisation A/c—			" Realisation A/c (Contin-		
Proceeds of Sale of Assets	6,339		gent Liability) .. ..	150	
			" Sundry Creditors .. ..	2,500	
			" Brown Loan A/c .. ..	1,000	
			" Balance—		
			Brown .. .. .	1,946	
			Jones .. .. .	1,473	
	7,189			7,189	

Dr.		SUNDRY CREDITORS.		Cr.	
To Cash .. .. .	2,500		By Balance .. .. .	2,500	

Dr.		BROWN (LOAN ACCOUNT).		Cr.	
To Cash .. .. .	1,000		By Balance .. .. .	1,000	

Dr.		BROWN (CAPITAL ACCOUNT).		Cr.	
To Realisation A/c,			By Balance .. .. .	3,060	
Loss .. .. .	1,114				
" Cash .. .. .	1,946				
	3,060			3,060	

Dr.		JONES (CAPITAL ACCOUNT).		Cr.	
To Realisation A/c, ‡			By Balance .. .. .	2,030	
Loss .. .. .	557				
" Cash .. .. .	1,473				
	2,030			2,030	

(3) Loss on Realisation, necessitating the partners bringing in Cash to meet their deficits, and so enabling the Creditors to be paid in full.

Example.—Brown and Jones are in partnership sharing profits three-fifths and two-fifths respectively. At the date of dissolution their Capitals are, Brown £850, and Jones £520. The Creditors amount to £3,000. The balance of Cash in hand is £65, while the other assets realise £2,800, the expenses of winding up being £75. The partners bring in Cash to meet their respective deficits. Close the books of the firm, showing the Ledger Accounts.

<i>Dr.</i>		CASH BOOK.		<i>Cr.</i>	
To Balance .. ..	65	By Realisation A/c (Expenses)	75		
„ Realisation A/c (Proceeds of Sale of Assets) ..	2,800	„ Sundry Creditors .. ..	3,000		
„ Brown Capital A/c (Cash brought in) .. ..	98				
„ Smith Capital A/c (Cash brought in) .. ..	112				
	<u>3,075</u>		<u>3,075</u>		

<i>Dr.</i>		REALISATION ACCOUNT.		<i>Cr.</i>	
To Sundry Assets ..	4,305	By Cash (Proceeds of Sale) .. ..	2,800		
„ Cash (Expenses) ..	75	„ Capital A/cs (loss)—			
		Brown $\frac{3}{8}$ .. £948			
		Jones $\frac{2}{8}$ .. 632			
			<u>1,580</u>		
	<u>4,380</u>		<u>4,380</u>		

<i>Dr.</i>		SUNDRY CREDITORS.		<i>Cr.</i>	
To Cash .. ..	3,000	By Balance .. ..	3,000		

<i>Dr.</i>		BROWN (CAPITAL ACCOUNT).		<i>Cr.</i>	
To Realisation A/c ( $\frac{3}{8}$ of Loss) .. ..	948	By Balance .. ..	850		
		„ Cash .. ..	98		
	<u>948</u>		<u>948</u>		

<i>Dr.</i>		JONES (CAPITAL ACCOUNT).		<i>Cr.</i>	
To Realisation A/c ( $\frac{2}{8}$ of Loss) .. ..	632	By Balance .. ..	520		
		„ Cash .. ..	112		
	<u>632</u>		<u>632</u>		

Note.—With this example the student finds himself confronted at the outset with the difficulty of ascertaining the book value of the Assets which were sold. Such a difficulty often presents itself in connection with examination work. It is solved as follows. The total of the liabilities side of the Balance Sheet was £4,370 (£850 + £520 + £3,000). Inasmuch as the two sides of the Balance Sheet are equal, the total value of the Assets must have been £4,370; and since the Cash in hand was £65, the book value of the other Assets must have amounted to £4,305 (£4,370 less £65).

(4) A Loss on Realisation, some partners being solvent and some insolvent, necessitating the rule of *Garner v. Murray* being applied.

Example.—Smith, Brown, and Jones are in partnership sharing profits three-sixths, two-sixths, and one-sixth respectively. The state of affairs at the date of dissolution is as follows—

## BALANCE SHEET.

<i>Liabilities.</i>				<i>Assets.</i>			
Sundry Creditors .. ..	4,090			Cash .. ..	1,090		
Smith (Loan A/c) .. ..	300			Sundry Debtors .. ..	2,850		
Capital A/cs—				Stock .. ..	1,920		
Smith .. ..	1,400			Fixtures and Fittings ..	850		
Brown .. ..	1,000			Jones, Capital A/c (Dr. balance)	80		
	6,790				6,790		

The Assets, other than Cash, realise £4,966, and the expenses of winding up are £66. Smith and Brown are solvent, but Jones is unable to bring in anything. Make the necessary adjustments, and draw up a Balance Sheet showing the position of affairs before applying the *Garner v. Murray* rule, after which close the books of the firm showing the Ledger Accounts.

<i>Dr.</i>				CASH BOOK.				<i>Cr.</i>			
To Balance .. ..	1,090			By Realisation A/c (Expenses)	66						
" Realisation A/c (Proceeds of Sale of Asset) ..	4,966			" Sundry Creditors .. ..	4,090						
" Deficiency A/c (Cash brought in)—				" Smith (Loan A/c) .. ..	300						
Smith .. ..	360			" Balance c/d .. ..	2,200						
Brown .. ..	240										
	6,656										
To Balance b/d .. ..	2,200										

<i>Dr.</i>				REALISATION ACCOUNT.				<i>Cr.</i>			
To Sundry Assets .. ..	5,620			By Cash (Proceeds of Sale) .. ..	4,966						
" Cash (Expenses) .. ..	66			" Deficiency A/c (transfer)—							
				Smith $\frac{3}{8}$ .. £360							
				Brown $\frac{2}{8}$ .. 240							
				Jones $\frac{1}{8}$ .. 120							
					720						
	5,686				5,686						

<i>Dr.</i>				SUNDRY CREDITORS.				<i>Cr.</i>			
To Cash .. ..	4,090			By Balance .. ..	4,090						

Dr.		SMITH (LOAN ACCOUNT).				Cr.	
To Cash .. .. .	300			By Balance .. .. .	300		

Dr.		DEFICIENCY ACCOUNT.				Cr.	
To Realisation A/c (loss b/f) .. .. .	720			By Cash— Smith .. .. .	360		
				Brown .. .. .	240		
				„ Balance c/d.. .. .	120		
	720				720		
To Balance b/d.. .. .	120						

The position of affairs, now, is as shown by the following statement—

## BALANCE SHEET.

Liabilities.		Assets.	
Capital A/cs—		Cash .. .. .	2,200
Smith .. .. .	1,400	Jones—	
Brown .. .. .	1,000	Capital Overdrawn.. £80	
		Share of Deficiency.. 120	
			200
	2,400		2,400

Applying the *Garner v. Murray* rule, the solvent partners will receive and lose the following amounts—

Partners.	Receive.	Lose.
Smith	$\frac{1400}{2400}$ of £2,200 = £1,283 6s. 8d.	$\frac{1400}{2400}$ of £200 = £116 13s. 4d.
Brown	$\frac{1000}{2400}$ of £2,200 = £916 13s. 4d.	$\frac{1000}{2400}$ of £200 = £83 6s. 8d.

And the Ledger Accounts will be as follows—

Dr.		SMITH (CAPITAL ACCOUNT).				Cr.	
To Transfer from Jones A/c .. .. .	116 13 4			By Balance .. .. .	1,400		
„ Cash .. .. .	1,283 6 8						
	1,400				1,400		

Dr.		BROWN CAPITAL ACCOUNT.				Cr.	
To Transfer from Jones A/c .. .. .	83 6 8			By Balance .. .. .	1,000		
„ Cash .. .. .	916 13 4						
	1,000				1,000		



Dr.		JONES.		Cr.	
To Capital A/c (over-drawn) .. ..	80		By Transfer to— Smith, Capital A/c	116	13 4
„ Share of Firm's Deficiency ..	120		Brown, Capital A/c	83	6 8
	200			200	

Dr.		CASH BOOK		Cr.	
To Balance .. ..	2,200		By Capital A/cs— Smith .. ..	1,283	6 8
			Brown .. ..	916	13 4
	2,200			2,200	

(5) A Loss on Realisation, and all the partners insolvent, the creditors being paid a dividend.

**Example.**—Brown and Jones are in partnership sharing profits and losses two-thirds and one-third respectively. The following is the state of affairs at the date of dissolution.

## BALANCE SHEET.

Liabilities.		Assets.	
Sundry Creditors .. ..	6,000	Cash .. ..	450
Capital A/cs—		Sundry Debtors .. ..	2,041
Brown .. ..	2,360	Stock .. ..	2,160
Jones .. ..	1,231	Fixtures and Fittings ..	1,540
		Goodwill .. ..	3,400
	9,591		9,591

The Assets, other than Cash, realise £4,300, and the expenses of winding up are £150. Close the books of the firm.

Dr.		CASH BOOK.		Cr.	
To Balance .. ..	450		By Realisation A/c (Expenses)	150	
„ Realisation A/c (proceeds of sale of assets) ..	4,300		„ Sundry Creditors— Dividend of 15/4 in the £ on £6,000 .. ..	4 600	
	4,750			4,750	

Dr.		REALISATION ACCOUNT.		Cr.	
To Sundry Assets ..	9,141		By Cash (proceeds of sale) .. ..	4,300	
„ Cash (Expenses) ..	150		„ Balance (loss carried to Profit and Loss)	4,991	
	9,291			9,291	

Dr.		SUNDRY CREDITORS.		Cr.	
To Cash (Dividend of 15s. 4d. in the £)	4,600	By Balance .. ..	6,000		
„ Balance c/d .. ..	1,400				
	6,000		6,000		
To Profit and Loss (transfer) .. ..	1,400	By Balance b/d.. ..	1,400		

Dr.		PROFIT AND LOSS ACCOUNT.		Cr.	
To Realisation A/c (balance brought forward) .. ..	4,991	By Balance from Sundry Creditors A/c .. ..	1,400		
		„ Capital A/cs—			
		Brown $\frac{2}{3}$ £2,394			
		Jones $\frac{1}{3}$ 1,197			
			3,591		
	4,991		4,991		

Dr.		BROWN (CAPITAL ACCOUNT).		Cr.	
To Profit and Loss A/c	2,394	By Balance .. ..	2,360		
		„ Balance c/d.. ..	34		
	2,394		2,394		
To Balance b/d.. ..	34	By Jones (Capital A/c)	34		

Dr.		JONES (CAPITAL ACCOUNT).		Cr.	
To Profit and Loss A/c..	1,197	By Balance .. ..	1,231		
„ Balance c/d.. ..	34				
	1,231		1,231		
To Brown (Capital A/c)	34	By Balance b/d.. ..	34		

**Note.**—In this case a Profit and Loss Account is opened, debited with the loss on realisation, and credited with the unpaid balance of the Creditors' Accounts, which makes a paper profit. The balance of the Profit and Loss Account is carried to the Capital Accounts in the usual way. The Capital Accounts are then closed by transfer of their corresponding but opposite balance.

**Alternative Form of Realisation Account.**—In some cases the Asset Accounts are not closed by transfer to a Realisation Account but are left open. The Cash received for the assets is debited in the Cash Book and credited to the various Asset Accounts, the balances of which, representing either gains or losses, are carried to a Realisation Profit and Loss Account. The actual gain or loss on each asset is thus easily perceived.

**Example.**—Light and Dark are equal partners in a retail concern. They decide to retire, and sell their business on 31st Dec., 19.., the position of affairs on this date being as on the next page.



<i>Dr.</i> SUNDRY CREDITORS.				<i>Cr.</i>			
19.. Dec. 31	To Cash .. ..	430		19.. Jan. 1	By Balance.. ..	450	
"	" Discount .. ..	20					
		450				450	

<i>Dr.</i> BAD DEBTS.				<i>Cr.</i>			
19.. Dec. 31	To Sundry Debtors	20		19.. Dec. 31	By Realisation A/c (loss) .. ..	20	

<i>Dr.</i> DISCOUNTS RECEIVED.				<i>Cr.</i>			
19.. Dec. 31	To Realisation A/c (gain) .. ..	20		19.. Dec. 31	By Sundry Creditors	20	

<i>Dr.</i> DISCOUNTS ALLOWED.				<i>Cr.</i>			
Dec. 31	To Sundry Debtors	30		Dec. 31	By Realisation A/c (loss) .. ..	30	

<i>Dr.</i> REALISATION PROFIT AND LOSS ACCOUNT.				<i>Cr.</i>			
19.. Dec. 31	<i>Losses.</i> To Stock .. ..	200		19.. Dec. 31	<i>Gains.</i> By Lease .. ..	500	
"	" Discounts allowed.. ..	30		"	" Fixtures and Fittings .. ..	50	
"	" Bad Debts .. ..	20		"	" Discounts Received .. ..	20	
"	" Expenses (Cash)	32					
"	" Capital A/cs (net gain)— Light $\frac{1}{2}$ £144 Dark $\frac{1}{2}$ 144						
		288					
		570				570	

<i>Dr.</i> LIGHT (CAPITAL ACCOUNT).				<i>Cr.</i>			
19.. Dec. 31	To Cash .. ..	3,144		19.. Jan. 1	By Balance .. ..	3,000	
				Dec 31	" Realisation A/c ( $\frac{1}{2}$ profit) .. ..	144	
		3,144				3,144	

Dr.		DARK (CAPITAL ACCOUNT).				Cr.	
19.. Dec. 31	To Cash .. ..	2,144			19.. Jan. 1	By Balance ..	2,000
					Dec. 31	" Realisation A/c ( $\frac{1}{2}$ profit) ..	144
		2,144					2,144

Dr.		CASH BOOK.				Cr.	
Receipts.	Discount.	Bank.	Payments.	Discount.	Bank.		
To Balance .. ..		500	By Sundry Creditors	20	430		
" Lease .. ..		1,500	" Realisation A/c (Expenses of Winding up) ..		32		
" Fixtures and Fittings ..		550	" Capital A/cs—				
" Sundry Debtors Stock .. ..	30	900	Light £3,144				
		2,300	Dark 2,144		5,288		
	30	5,750		20	5,750		

### PASS BOOK.—(See BANK PASS BOOK.)

**PATENTS.**—When patents are purchased, an account is opened and debited with the cost. The annual fees for renewal are charged to Profit and Loss Account. Patents are depreciated by writing off the cost over the "life" of the patent, which is fourteen years. Thus one-fourteenth would be written off the first year, one-thirteenth the second year, and so on. Sometimes the cost of the Trade Marks is placed to the same account.

**PATENTS, TRADE MARKS, ETC.**—(See PATENTS.)

**PATTERNS AND MODELS.**—(See MODELS AND PATTERNS.)

**PAYEE.**—(See CHEQUE, also BILL OF EXCHANGE.)

"Account Payee."—(See AND CO.)

**PAYMENT FOR HONOUR SUPRA PROTEST.**—(See BILL OF EXCHANGE.)

**PAYMENTS BY INSTALMENTS.**—(See INSTALMENT PAYMENT PURCHASE ACCOUNTS.)

**PAYMENTS IN ADVANCE.**—(See ADJUSTMENTS AT BALANCING TIME.)

**PENSION FUND.**—(See SUPERANNUATION FUND and CASH AT BANK.)

**PER CAPITA—PER STIRPES.**—Two Latin phrases met with in Executorship Accounts, signifying "by the heads or polls" and "by the stems or families" respectively. The

terms have reference to the distribution of an intestate's personal estate.

**Per Capita** denotes the distribution of the personalty equally among the intestate's children, or, in the absence of children, equally among the intestate's brothers and sisters. These claim in their own right as actual next of kin.

**Per Stirpes** denotes the distribution of part of the personalty among a younger generation, owing to the fact that some members of the older generation, *i.e.*, the actual next of kin, are dead, but have left issue. In this case the children claim, not in their own right, but by representation, and divide between them the share to which their deceased parent would have been entitled. Thus, suppose an intestate to leave four children, and three grandchildren by a deceased child. The personalty divisible among the children would be divided into five equal parts; the surviving children would take one part each *per capita*, and the three grandchildren would share the remaining part between them *per stirpes*. The right to share *per stirpes* is limited to grandchildren, and, in certain cases, to nephews and nieces of the intestate.

**PER CENT.**—Latin phrase = per hundred.

**PERCENTAGE ADDED TO COST.**—(See BRANCH ACCOUNTS.)

**PERCENTAGES OF GROSS AND NET PROFIT.**—(See COST ACCOUNTS and TRADING ACCOUNT.)

**PERPETUAL LEDGERS.**—(See LOOSE LEAF LEDGERS.)

**PER PRO.**—**PER PROCURATION.**—(See CHEQUE-INDORSEMENT.)

**PERSONAL ACCOUNTS.**—(See ACCOUNT.)

**PERSONALTY.**—This denotes all movable property, such as money, goods, furniture, other chattels, and leasehold interests in land.

**PER STIRPES.**—(See under PER CAPITA.)

**PETTY CASH.**—This is a sum of money advanced to a sub-cashier or junior clerk for the purpose of making sundry small disbursements day by day. There are various methods of keeping the Petty Cash.

**First Method.**—This way, which obtains in small businesses, is to keep a memorandum book and to enter all items therein daily as they occur. At the end of the month the total of the expenditure is written on the credit side of the Cash Book and posted to the debit of the Trade Expenses Account in the Ledger.



Example—

Dr.		CASH BOOK.										Cr.							
		Office.				Bank.						Office.				Bank.			
Jan. 1	To Balance (say)									Jan. 1	By Petty Cash etc.								
" "	" Bank etc.	c		3	6	25				" 31	" Trade Expenses								
				10												9	10	11	

Ledger.

Dr.		TRADE EXPENSES.										Cr.	
Jan. 31	To Petty Cash	..				9	10	11					

Second Method.—This is, to draw a cheque for Petty Cash, and enter the details in a memorandum book as before. At the end of the month the expenditure, however, is summarised, and the summary copied into the Cash Book ; from there it is posted to the debit of the accounts concerned in the Ledger.

Example—

Dr.										CASH BOOK.										Cr.			
		Office.				Bank.						Office.				Bank.							
Jan. 1	To Balance (say) ..					250				Jan. 1	By Petty Cash ..	c					10						
" "	" Bank etc.	c		10						" "	" "												
" "	" "									" "	" "												
" "	" "									31	" Postage & Telegrams		4	3	11								
" "	" "									" "	" Carriage Outward		1	2	3								
" "	" "									" "	" Travelling Expenses		1	6	3								
" "	" "									" "	" Carriage Inwards		2	13	10								
" "	" "									" "	" Printing & Stationery			18	6								
" "	" "									" "	" Sundry Expenses		1	2	5								
" "	" "									" "	" Brown & Co. ..			3	6								

The Ledger Accounts would appear the same as in the final example.

Third Method.—The disadvantage of the second method is that it retards the monthly balancing of the Cash Book, as the latter cannot be ruled off until the Petty Cash expenses for the month have been analysed and the analysis written therein. To obviate this the cheque drawn for Petty Cash

is posted to the debit of a Petty Cash Account in the Ledger. The analysis of the expenses at the end of the month is then journalised.

**Example—**

Dr.		CASH BOOK.								Cr.	
		Office.		Bank.				Office.		Bank.	
19.. Jan. 1	To Balance (say) ..			250		19.. Jan. 1	By Petty Cash			10	

JOURNAL.		Dr.			Cr.		
Jan. 31	Postage and Telegrams	2	3	11			
	Carriage Outwards ..	1	2	3			
	Travelling Expenses ..	1	6	3			
	Carriage Inwards ..	2	13	10			
	Printing and Stationery		18	6			
	Sundry Expenses ..	1	2	5			
	Brown & Co. ..		3	9			
	To Petty Cash ..				9	10	11
	for sundry expenses during the month as per Petty Cash Book.						

**Ledger.**

Dr.		PETTY CASH.								Cr.	
19.. Jan.	To Cash .. ..	10			19.. Jan. 31	By Sundry Expenses ..		9	10	11	
					" "	" Balance c/d ..			9	1	
		10						10			
Feb. 1	To Balance b/d ..		9	1							

The other accounts would appear as in the final example.

**Modern Method.**—The final and modern method of keeping the Petty Cash is what is known as the **Imprest System**. The word "imprest" means "retained" or "held." Thus a certain sum of money is advanced for petty cash purposes, and this advance is always retained or kept at the same figure, by drawing a cheque at the end of the month for the exact amount spent, and putting the money back again into the Petty Cash. It is thought that, under this system the Expenditure will be checked by the proprietor more often than if he were in the habit of signing cheques for the same round sum each month.

**Example.**—Enter the following particulars into a Petty Cash Book (kept on the Imprest System), analysing the items under suitable headings, and post to Ledger Accounts.

Jan. 1	Received Cheque for Petty Cash .. ..	10		
2	Paid Pickford & Co. Carriage on Goods sold .. ..		2	9
„	Bought Stamps .. ..	1		
3	Paid Carter, Paterson & Co., Carriage on Goods sold .. ..		3	6
„	Bought String .. ..			6
4	Paid Midland Rly. Carriage on Goods bought .. ..	13		8
5	Bus Fares, 11d ; Sealing Wax, 3d. ; Telegram, 1s. .. ..		2	2
6	Paid Traveller's Expenses .. ..	10		6
7	Washing Towels and Dusters .. ..	1		6
„	Gratuity to Dustmen .. ..			3
9	Paid S.E. and C. Rly. Carriage on Goods sold .. ..	3		9
„	Bought Red Tape 3d., Tram Fares 9d. ..	1		
10	Paid L. & N.W. Rly. Carriage on Goods bought .. ..	15		8
12	Cards and Labels .. ..	12		
„	Telegram .. ..	1		2
13	Paid Carter, Paterson & Co., Carriage on Returns from Brown & Co. Sent them Debit Note for same .. ..		3	9
14	Washing Towels and Dusters .. ..	1		6
„	Gratuity to Dustmen .. ..			3
16	Paid Midland Rly. Carriage on Goods bought .. ..	10		
„	Paid Carter, Paterson & Co. Carriage on Goods sold .. ..		2	9
17	Bus and Tram Fares of Shop boy .. ..			6
18	Parcels Delivery Co., Carriage on Goods sold .. ..		4	
19	Bought Matches 3d. ; Stamps £1 ; Telegram 1s. 9d. .. ..	1		2
20	Washing Towels and Dusters .. ..		1	6
21	Printing Address Labels .. ..		6	6
23	Paid Great Central Rly. Carriage on Goods bought .. ..		14	6
24	Bus and Tram Fares .. ..			6
25	Traveller's Expenses .. ..	15		9
26	Paid Carter, Paterson & Co. Carriage on Goods sold .. ..		5	6
27	Bought Candles .. ..		1	
28	Washing Towels and Dusters .. ..		1	6
30	Gratuity to Dustmen 3d. ; Bus and Tram Fares 9d. .. ..		1	
31	Cleaning Offices and Rooms .. ..		10	

Dr.

## PETTY CASH BOOK.

(24)  
Cr.

[PET]

## DICTIONARY OF BOOK-KEEPING

[PET]

Cash Re- ceived.	Date.	Item.	Total.	Postage and Te- legrams.	Carriage Out- wards.	Travel- ling Ex- penses.	Carriage In- wards.	Printing & Sta- tionery.	Sundry Ex- penses.	Led. Fol.	Ledger A/cs.
10	19.. 1 Jan. 2	Cheque C.B. 118 .. ..	2 9								
	3	Pickford & Co. .. ..	1	1	2 9						
	4	Stamps .. ..	3 6		3 6						
	5	Carter, Paterson & Co. ..	13 8				13 8		6		
	6	String .. ..	2 2								
	7	Midland Rly. .. ..	10 6			10 6			1		
	8	Bus Fares, 11d.; Sealing Wax, 3d.; Telegram, 1s. .. ..	1 6	1							
	9	Traveller's Expenses .. ..	1 6								
	10	Washing Towels and Dusters ..	3 9								
	11	Gratuity to Dustmen .. ..	1 8								
	12	S.E. & Chatham Rly. .. ..	13 2		3 9						
	13	Tape, 3d.; Fares, 9d. .. ..	3 9								
	14	L. & N.W. Rly. .. ..	1 6								
	15	Cards and Labels, 12s.; Telegram, 1/2 Carriage on Returns from Brown & Co.	3 9	1 2			15 8	12		S.L. 168	3 9
	16	Washing Towels and Dusters ..	1 6								
	17	Gratuity to Dustmen .. ..	10 3								
	18	Midland Rly. .. ..	2 9				10				
	19	Carter, Paterson & Co. .. ..	2 9		2 9						
	20	Bus and Tram Fares .. ..	4		4						
	21	London Parcels Delivery Co. ..	1 2								
	22	Matches, 3d.; Stamps, 1s.; Telegram, 1s. 9d. .. ..	1 6	1 1 9							
	23	Washing Towels and Dusters ..	6 6								
	24	Printing Address Labels .. ..	14 6					6 6			
	25	Great Central Railway .. ..	15 9								
	26	Bus and Tram Fares .. ..	5 6		5 6						
	27	Traveller's Expenses .. ..	1 6								
	28	Carter, Paterson & Co. .. ..	1 6								
	29	Candles .. ..	10								
	30	Washing Towels and Dusters ..	9 10 11	2 3 11	1 2 3	1 6 3	2 13 10	18 6	1 2 5		3 9
	31	Dustmen, 3d.; Tram Fares, 9d. ..	10	G.L. 38	G.L. 46	G.L. 54	G.L. 65	G.L. 71	G.L. 86		
		Cleaning Offices and Rooms .. ..	19 10 11								
		Cheque C.B. 129. .. ..									
		Balance c/f .. ..									
			9 10 11								
			19 10 11								

## General Ledger.

(38)

Dr.

## POSTAGE AND TELEGRAMS.

Cr.

Jan. 31	To Petty Cash ..	24	2	3	11						
---------	------------------	----	---	---	----	--	--	--	--	--	--

Dr.

## CARRIAGE OUTWARDS.

(46)

Cr.

Jan. 31	To Petty Cash ..	24	1	2	3						
---------	------------------	----	---	---	---	--	--	--	--	--	--

Dr.

## TRAVELLING EXPENSES.

(54)

Cr.

Jan. 31	To Petty Cash ..	24	1	6	3						
---------	------------------	----	---	---	---	--	--	--	--	--	--

Dr.

## CARRIAGE INWARDS.

(65)

Cr.

Jan. 31	To Petty Cash ..	24	2	13	10						
---------	------------------	----	---	----	----	--	--	--	--	--	--

Dr.

## PRINTING AND STATIONERY.

(71)

Cr.

Jan. 31	To Petty Cash ..	24	18	6							
---------	------------------	----	----	---	--	--	--	--	--	--	--

Dr.

## SUNDRY EXPENSES.

(86)

Cr.

Jan. 31	To Petty Cash ..	24	1	2	8						
---------	------------------	----	---	---	---	--	--	--	--	--	--

## Sales Ledger.

(168)

Dr.

## BROWN &amp; CO.

Cr.

Jan. 31	To Petty Cash (carriage paid out on Returns) ..	24	3	9							
---------	---	----	---	---	--	--	--	--	--	--	--

**PETTY EXPENSES.**—(See TRADE EXPENSES.)

**PICE.**—(See RUPEE.)

**PIE.**—(See RUPEE.)

**PLANT AND MACHINERY.**—A separate account is opened for this item, and all purchases thereof debited to it. For the treatment of depreciation see under that heading. See also under ADDITIONS TO PLANT. For the treatment of Plant used on Contracts, see also CONTRACTS.

**Fixed Plant and Machinery.**—That which is fastened to the walls or floors of the building.

**Loose Plant and Machinery.**—That which can be moved from place to place as required.

**P/N.**—Abbreviation of Promissory Note.

**POLICY IN PAYMENT OF A DEBT.**—(See **LIFE POLICY.**)

**POSSESSORY LIEN.**—(See **LIEN.**)

**POSTAGE BOOK.**—A memorandum Cash Book, in which are entered daily the names of persons to whom letters and parcels are sent, and the amount of the postage. It acts as a check on the office boy, to whom a quantity of stamps is given from time to time for the purpose of postage.

**Example—**

**POSTAGE BOOK.**

Stamps Received.		Date.	Name and Address.	Amount of Postage.	
5		19..			
		Jan. 1	Mrs. Brown, Windsor .. ..		1
		"	M. Le Claire, Paris.. ..		3
		"	Herrn Strumpf, Berlin .. ..		3
		"	Rev. E. Stiggins, Newbury (parcel)		6

**POSTAGE, TELEGRAMS, AND BILL STAMPS.**—An account is opened under this heading for expenditure of this kind. It is closed at balancing time by transfer to Profit and Loss.

**POSTAL ORDER.**—(See **CASH.**)

**POST-DATED CHEQUES.**—(See **CHEQUE.**)

**POST-DATED GOODS.**—(See **DATING FORWARD.**)

**POSTING.**—The act of transferring entries, either in detail or total, from any of the subsidiary books to the Ledger.

**POST-OBIT BOND.**—A bond under which a person receiving money binds himself to repay the same, generally with interest, after the death of an individual from whom he expects to inherit property.

**POWER OF APPOINTMENT.**—A right to direct the disposal of any property given to a person under any will or settlement.

**POWER OF ATTORNEY.**—A formal legal document authorising one person to act for or on behalf of another. Managers of large branches, where the head office is situated in another country, often have this power on behalf of the firm.



**PREFERENCE DIVIDEND LESS TAX.**—When the dividend on the Preference Shares appears in the Trial Balance *less tax*, the tax must be added back, and deducted from the Taxes Account if the Company has paid its income tax for the year ; if not, it would show as a separate item on the Balance Sheet. The entries necessary for bringing the Dividend to account are either—

**Journal.**

(1)	Preference Dividend Account (full amount)	<i>Dr.</i>
	To Preference Shareholders (net amount)	<i>Cr.</i>
	„ Income Tax Account (tax)	<i>Cr.</i>
	Appropriation of Profit Account	<i>Dr.</i>
	To Preference Dividend Account	<i>Cr.</i>

**Cash Book.**

By Preference Shareholders (net amount)

**Journal.**

or (2)	Appropriation of Profit Account	<i>Dr.</i>
	To Preference Dividend Account (for full amount of Dividend)	<i>Cr.</i>
	Preference Dividend Account	<i>Dr.</i>
	To Income Tax Account (for amount of tax)	<i>Cr.</i>

**Cash Book.**

By Preference Dividend Account (net amount)

The notes under Debenture Interest *less tax* should be referred to by the student.

**PREFERENCE (RIGHT OF).**—(See MARSHALLING OF ASSETS.)

**PREFERENCE SHARES.**—(See COMPANY.)

**PREFERENTIAL CREDITORS.**—(See STATEMENT OF AFFAIRS.)

**PREFERENTIAL PAYMENTS.**—(See STATEMENT OF AFFAIRS and WINDING UP.)

**PRELIMINARY EXPENSES.**—These include the law costs, registration fees, printing of prospectuses and forms of application, advertising and other expenses incidental to the formation or promotion of a Company. Hence they are also called **Formation Expenses** and **Promotion Expenses**. Such expenditure is, of course, Capital Expenditure ; but it is usually written off to Revenue over a period of years, three, five or seven according as the amount is small, large, or very large. In examination work it must not be written

off unless definite instructions are so given. The balance of the account appears each year on the assets side of the Balance Sheet until the amount is finally extinguished.

**PREMISES.**—These may be either Leasehold or Freehold. For information respecting these, see under FREEHOLD and LEASEHOLD respectively, also under DEPRECIATION and under ALTERATIONS.

**PREMIUM (APPRENTICE).**—A sum of money required for teaching a person a particular trade or profession. It is a source of income, but is written off to the credit of Profit and Loss by instalments over the period of apprenticeship. Thus, with a premium of £500 for five years, one-fifth or £100 would be taken to Revenue each year.

**PREMIUM (INSURANCE).**—(See ASSURANCE and INSURANCE.)

**PREMIUM ON DEBENTURES.**—(See DEBENTURE PREMIUM.)

**PREMIUM ON LEASE.**—(See LEASE.)

**PREMIUM ON SHARES.**—(See SHARE PREMIUM.)

**PREMIUM (PARTNERSHIP).** — (See PARTNERSHIP ACCOUNTS.)

**PREPAID CALLS.**—Same as CALLS IN ADVANCE.

**PREPAYMENTS.**—(See ADJUSTMENTS AT BALANCING TIME.)

**PRESENTATION OF CHEQUE OR BILL.**—(See CHEQUE and BILL OF EXCHANGE.)

**PRESENTMENT FOR ACCEPTANCE.**—(See BILL of EXCHANGE.)

**PRESS COPY.**—(See INVOICE.)

**PRICE LISTS.**—(See CATALOGUES.)

**PRIME COST.**—(See COST ACCOUNTS.)

**PRIME COST LEDGER.**—(See COST LEDGER.)

**PRINTING AND STATIONERY.**—A separate account is opened for expenditure of this nature, and all purchases thereof debited to it. The stock, at balancing time, is written in on the credit side, and the balance of the account is then transferred to the debit of Profit and Loss; such balance represents the cost of the printing and stationery used during the past trading period. The stock of stationery is brought down on the debit side of the Account, and appears in the Balance Sheet as an asset.

**PRIVATE ACCOUNT.**—(See DRAWING ACCOUNT.)

**PRIVATE COMPANY.**—(See COMPANY.)

**PRIVATE LEDGER.**—A Ledger containing the Capital and Drawing Accounts of the partners of the firm, and the Profit and Loss Accounts and Balance Sheets of past trading periods. It also includes any other accounts of a private nature such as Loans, etc. The Stock Account is sometimes kept in the Private Ledger, as, without this knowledge, it then becomes impossible for the clerks to ascertain the gross or net profit, even though they have access to all the other information. The Private Ledger is often kept by the chief clerk or accountant, who occupies a confidential post.

**PRIVATE LEDGER ACCOUNT.**—Where it is not desired that any clerk shall have access to the Private Ledger, an adjustment account, called Private Ledger Account, is opened at the back of the General Ledger, and credited with the net balance of all the accounts in the Private Ledger. All items that should be posted to the Private Ledger are then debited or credited to the Private Ledger Account instead. The balance of the Private Ledger Account thus enables the Trial Balance to be completed without reference to the Private Ledger itself. At balancing time, the professional accountant who makes up the Profit and Loss Account and Balance Sheet, analyses the Private Ledger Account and posts the details to the proper accounts in the Private Ledger. He closes the Private Ledger Account for the past period by writing "*To Transfer to Private Ledger,*" and re-opens it by writing "*By Balance,*" and the net amount for the new period.

**PRIVATE LEDGER ADJUSTMENT ACCOUNT.**—(See PRIVATE LEDGER ACCOUNT.)

**PROBATE.**—Official proof of will. (See EXECUTORSHIP ACCOUNTS.)

**PROCESS COST ACCOUNTS.**—(See COST ACCOUNTS.)

**PROCURATION.**—A document giving one person the management of another's affairs. Cheques are often signed and indorsed "*per procuration,*" or "*per pro.*" as it is commonly abbreviated.

**Per Procuration.**—A signature of one person on behalf of another. A signature "*per pro.*" indicates that the proctor or agent has only a limited authority, and the principal is not bound if the agent exceeds that authority.

**PRODUCTION ACCOUNT.**—(See COST ACCOUNTS and MANUFACTURING ACCOUNTS.)

**PRODUCTION EXPENSES.**—(See COST ACCOUNTS.)

**PRODUCTIVE WAGES.**—(See MANUFACTURING WAGES.)

**PROFIT.**—Excess of selling price over buying or cost price.

**Gross Profit.**—Excess of sales over purchases and purchase expenses, after adjustment of any stock at commencement or finish of the period, as shown by the Trading Account.

**Net Profit.**—Excess of gross profit over the selling and management expenses, as shown by the Profit and Loss Account.

**Capitalised Profits.**—(See BONUS SHARES.) The term is sometimes used in reference to profits transferred to the Reserve Fund.

**Percentages of Gross and Net Profit.**—(See TRADING ACCOUNT and COST ACCOUNTS.)

**PROFIT AND LOSS ACCOUNT.**—An Account into which are collected all the various gains and losses of the business, in order to ascertain the difference between the totals of each, such difference being either the net profit or the net loss resulting from trading. For an example see under TRADING AND PROFIT AND LOSS ACCOUNT.

**PROFIT BY SINGLE ENTRY.**—(See SINGLE ENTRY.)

**PROFITS PRIOR TO INCORPORATION.**—(See COMPANY.)

**PRO FORMA INVOICE.**—(See INVOICE.)

**PROMISSORY NOTE.**—This, as defined by the Bills of Exchange Act, 1882, is—

An unconditional promise in writing made by one person to another, signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person or to bearer.

The stamp duty on Promissory Notes is the same as for Bills, except that it is always *ad valorem* whether payable on demand or within 3 days, or otherwise. A Promissory Note is transferable like a bill of exchange; and the provisions of the Bills of Exchange Act apply, with a few exceptions, also to promissory notes.

**Example—**

£75.

London,  
20th Jan., 19..

Stamp.  
9d.

Three months after date I promise to pay  
to Mr. W. Marshman or order the sum of  
Seventy-five pounds, for value received.

E. A. Shepherd.

**Use of Promissory Notes.**—Promissory Notes are mostly


used for *loan* transactions. In book-keeping they are treated as Bills if not very numerous. Thus a Promissory Note we receive would be entered as a Bill Receivable, and a Promissory Note we give as a Bill Payable. In a Loan Office or other business where the notes are numerous, a separate account would be opened for "Promissory Notes Receivable," and "Promissory Notes Payable" respectively.

**Parties to a Note.**—There are two parties to a Promissory Note, the **maker**, and the **payee**. In the example given, E. A. Shepherd is the maker, and W. Marshman the payee. No maker, however, is liable until he has actually signed and delivered the Note to the payee or bearer.

**Joint and Several Promissory Notes.**—Section 85 of the Bills of Exchange Act, 1882, says—

- (1) A promissory note may be made by two or more makers, and they may be liable thereon jointly, or jointly and severally according to its tenor.
- (2) Where a note runs "I promise to pay" and is signed by two or more persons it is deemed to be their joint and several note.

The following is an example of a Joint Note—

£75.	London, 1st June, 19..
	<p><i>Three months after date we promise to pay          Mr. T. C. Jones the sum of Seventy-five          pounds, value received.</i></p> <p style="text-align: right;"> <i>R. J. Porters.          W. J. Marshman.</i> </p>

To be a Joint and Several Note it would have to read "I promise to pay," or "We and each of us promise to pay," or "We jointly and severally promise to pay." A Joint and Several Note is, of course, preferable to a mere Joint Note. In the latter case the promisee could only sue the makers jointly; in the former case he could sue each maker individually.

**Promissory Note and Collateral Security.**—By Section 83 (3) of the Act, "A note is not invalid by reason only that it contains also a pledge of collateral security with authority to sell or dispose thereof."

**Inland and Foreign Notes.**—A note which is, or on the face of it purports to be, both made and payable within the British Islands is an inland note. Any other note is a foreign note.



**Note Payable on Demand.**—A note is payable on demand—

- (a) Which is expressed to be payable on demand, or at sight, or on presentation ; or
- (b) In which no time for payment is expressed.

**Presentment for Payment.**—Where a promissory note is in the body of it made payable at a particular place, it must be presented for payment at that particular place in order to render the maker liable. In any other case presentment for payment is not necessary in order to render the *maker* liable. Presentment for payment is necessary in order to render an *indorser* liable.

**Liability of Maker.**—The maker of a promissory note by making it—

- (1) Engages that he will pay it according to its tenor.
- (2) Is precluded from denying to a holder in due course the existence of the payee and his then capacity to indorse.

**Difference between Promissory Note and Bill of Exchange.**

—The principal points of difference are—

- (1) A Note is a *promise* to pay, a Bill is an *order* to pay.
- (2) A Bill requires *acceptance*, a Note does *not*.
- (3) There are *three* parties to a Bill, but only *two* to a Note.
- (4) A Bill is drawn by the *Creditor*, a Note is made out by the *Debtor*.
- (5) Bills are often drawn *in sets*, notes are made *singly*.
- (6) Foreign Bills when dishonoured must be *protested*, foreign Notes need *not*.

**PROMOTER.**—The person who does the necessary preliminary work in forming or floating a Company. The promoter stands in a fiduciary relationship towards the company he is floating, and must not therefore use his position to make any secret profit at the expense of the company. The promoter is personally liable for any acts done before the company is registered, and the company cannot subsequently ratify such acts.

**PROMOTION EXPENSES.**—(See PRELIMINARY EXPENSES.)

**PROPERTY ACCOUNTS.**—(See ACCOUNT.)

**PROPERTY LIST H.**—(See STATEMENT OF AFFAIRS.)

**PROPERTY TAX.**—Schedule A Tax.

**PROSPECTUS.**—For an explanation of the term the student should refer to this heading under Company. By Section 81 of the Companies Consolidation Act, 1908—

Every prospectus issued by or on behalf of a company, or by or on



behalf of any person who is or has been engaged or interested in the formation of the company, must state—

- (1) The contents of the memorandum, with the names, descriptions, and addresses of the signatories, and the number of shares subscribed for by them respectively; and the number of founders or management or deferred shares, if any, and the nature and extent of the interest of the holders in the property, and profits of the company; and
- (2) the number of shares, if any, fixed by the articles as the qualification of a director, and any provision in the articles as to the remuneration of the directors; and
- (3) the names, descriptions, and addresses of the directors or proposed directors; and
- (4) the minimum subscription on which the directors may proceed to allotment, and the amount payable on application and allotment on each share; and in the case of a second or subsequent offer of shares, the amount offered for subscription on each previous allotment made within the two preceding years, and the amount actually allotted, and the amount, if any, paid on the shares so allotted; and
- (5) the number and amount of shares and debentures which within the two preceding years have been issued, or agreed to be issued, as fully or partly paid up otherwise than in cash, and in the latter case the extent to which they are so paid up, and in either case the consideration for which those shares or debentures have been issued or are proposed or intended to be issued; and
- (6) the names and addresses of the vendors of any property purchased or acquired by the company, or proposed so to be purchased or acquired, which is to be paid for wholly or partly out of the proceeds of the issue offered for subscription by the prospectus, or the purchase or acquisition of which has not been completed at the date of issue of the prospectus, and the amount payable in cash, shares, or debentures, to the vendor, and where there is more than one separate vendor, or the company is a sub-purchaser, the amount so payable to each vendor: Provided that where the vendors or any of them are a firm the members of the firm shall not be treated as separate vendors; and
- (7) the amount (if any) paid or payable as purchase money in cash, shares, or debentures, for any such property as aforesaid, specifying the amount (if any) payable for goodwill; and
- (8) the amount (if any) paid within the two preceding years, or payable, as commission for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in, or debentures of, the company, or the rate of any such commission: Provided that it shall not be necessary to state the commission payable to sub-underwriters; and
- (9) the amount or estimated amount of preliminary expenses; and
- (10) the amount paid within the two preceding years or intended to be paid to any promoter, and the consideration for any such payment; and
- (11) the dates of and parties to every material contract, and a reasonable time and place at which any material contract

- or a copy thereof may be inspected: Provided that this requirement shall not apply to a contract entered into in the ordinary course of the business carried on or intended to be carried on by the company, or to any contract entered into more than two years before the date of issue of the prospectus; and
- (12) the names and addresses of the auditors (if any) of the company; and
  - (13) full particulars of the nature and extent of the interest (if any) of every director in the promotion of, or in the property proposed to be acquired by, the company, or where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the company; and
  - (14) Where the Company is a Company having shares of more than one class, the right of voting at meetings of the Company conferred by the several classes of shares respectively.

**PROTEST OF BILL.**—(See BILL OF EXCHANGE.)

**PROVISIONS.**—(See RESERVES.)

**PROXY.**—(See COMPANY—MEETINGS.)

**PUBLIC EXAMINATION.**—(See STATEMENT OF AFFAIRS.)

**PUBLIC LIMITED COMPANY.**—(See COMPANY.)

**PURCHASE ACCOUNT.**—(See COMPANY.)

**PURCHASE MONEY.**—(See COMPANY.)

**PURCHASE PRICE.**—(See COMPANY.)

**PURCHASES ACCOUNT.**—An account in which are posted all cash and credit purchases of goods. It is closed by transfer to Trading Account. For the sake of convenience or additional information, the Purchases Account is often subdivided departmentally, as Purchases Account, A Dept., Purchases Account, B Dept.; or Purchases Account, Drapery, Purchases Account, Outfitting; and so on. Each of these subsidiary accounts is likewise closed at balancing time by transfer to Trading Account. Instead of having a separate Purchases Account for each department, purchases may be kept in one tabular Purchase Account, as explained under Departmental Accounts.

**PURCHASES BOOK.**—A subsidiary book, or book of first entry, in which are recorded all purchases of goods *on credit*. It is also called the **Bought Book**, the **Bought Day Book**, and the **Invoice Book**. It derives the latter name from the fact that the inwards or bought invoices are copied into it. Cash purchases are entered direct into the Cash Book

on the Credit side, and from thence posted to the debit of the Purchases Account in the Ledger. Some firms copy the cash purchases, however, into the Purchases Book; this is condemned as a needless waste of time and paper. Some Purchases Books are ruled with only two money columns, others have several, according to the requirements of the business.

**Common Errors in the Purchases Book.**—When an ordinary two-column Book is in use, the student must be on his guard against some very common errors. The fact that a thing is purchased, does not necessarily mean that it is to go through the Purchases Book. If it is something bought for resale, such as goods, then it will be entered therein; but if it is something bought to keep, such as Furniture, or something for our own use, such as Coal, Oil, Stationery, it must be journalised and posted to an asset or expense account. Again, when we enter into speculations with other people, then those credit purchases do not appear in the Purchases Book. The latter is kept solely for transactions on our own account. If we buy goods for a Joint Adventure with others, a Journal entry must be made for such a purchase, if on credit. Where, however, a Tabular Purchases Book is in use, all credit purchases, of whatever nature, may be entered in it, because there are separate columns for analysis.

**Example.**—Record the following credit purchases, etc., (1) in the ordinary books, (2) in a Tabular or Columnar Purchases Book.

19..	
June 1	Bought of A. Brown, Windsor— 30 yards Black Cloth @ 2/11; 20 yards Brown Cloth @ 3/6
6	Bought from T. Tompkins, Leeds— 25 yards Black Cloth @ 3/9.
13	Purchased from Black & Co., London— 5 tons Kitchen Nuts @ 16/6.
15	S. Starling of Nottingham sold me— 40 yards Blue Cloth @ 4/6; 50 yards Brown Cloth @ 3/11.
22	Bought of B. Berry, Newbury— 60 yards Brown Velvet @ 5/6; 30 yards Green Velvet @ 6/6.
24	Received Notice of Rent due for quarter, £36 12s. 6d. also Demand Note for Rates and Taxes, £10 4s. 3d.
25	H. Hawke of Liverpool invoiced me— 3 Office Desks @ 32/6.
28	Bought of R. W. Goodman, London— 25 yards Fancy Satin @ 4/6; 30 yards Fancy Satin @ 3/6.
30	Purchased of White & Sons, Manchester— Stationery as per invoice, £4 15s. 8d.

## Purchases Book.

			Details.			Total.		
19..								
June 1	A. Brown, Windsor—							
	30 yards Black Cloth	2/11	4	7	6			
	20 yards Brown Cloth	3/6	3	10		7	17	6
6	T. Tompkins, Leeds—							
	25 yards Black Cloth	3/9	4	13	9	4	13	9
15	S. Starling, Nottingham—							
	40 yards Blue Cloth	4/6	9					
	50 yards Brown Cloth	3/11	9	15	10	18	15	10
22	B. Berry, Newbury—							
	60 yards Brown Velvet	5/6	16	10				
	30 yards Green Velvet	6/6	9	15		26	5	
28	R. W. Goodman, London—							
	25 yards Fancy Satin	4/6	5	12	6			
	30 yards Fancy Satin	3/6	5	5		10	17	6
					£	68	9	7

## Journal.

			Dr.			Cr.		
19..								
June 13	Coal . . . . .		4	2	6			
	To Black & Co. . . . .					4	2	6
	for 5 tons Kitchen Nuts @ 16/6							
24	Rent . . . . .		36	12	6			
	Rates and Taxes . . . . .		10	4	3			
	To Outstanding A/cs . . . . .					46	16	9
	for quarter's Rent and Demand Note for Rates respectively.							
25	Furniture and Fixtures . . . . .		4	17	6			
	To H. Hawke . . . . .					4	17	6
	for 3 Office Desks @ 32/6.							
30	Stationery . . . . .		4	15	8			
	To White & Sons . . . . .					4	15	8
	for paper, etc., as per invoice.							

## Tabular Purchases Book.

		PUR]										[PUR									
		PUR]										[PUR									
Date.	Particulars.	Led. Fol.	Details.		Total.	Pur- chases.	Sta- tionery.	Furni- ture & Fixtures.	Coal.	Rent, Rates & Taxes.											
June 1	A. Brown, Windsor— 30 yards Black Cloth 20 yards Brown Cloth	181	4 7 6 3 10		7 17 6	7 17 6															
6	T. Tompkins, Leeds— 25 yards Black Cloth	182	4 13 9		4 13 9	4 13 9															
13	Black & Co., London— 5 tons Kitchen Nuts	186	4 2 6		4 2 6																
15	S. Starling, Nottingham— 40 yards Blue Cloth 50 yards Brown Cloth	183	9 9 15 10		18 15 10	18 15 10															
22	B. Berry, Newbury— 60 yards Brown Velvet 30 yards Green Velvet	184	16 10 9 15		26 5	26 5															
24	Outstanding Accounts— Rent for Quarter Rates and Taxes	187	36 12 6 10 4 3		46 16 9																
25	H. Hawke, Liverpool— 3 Office Desks	188	4 17 6		4 17 6																
28	R. W. Goodman, London— 25 yards Fancy Satin 30 yards Fancy Satin	185	5 12 6 5 5		10 17 6	10 17 6															
( 30	White & Sons, Manchester— Stationery as per invoice	189	4 15 8		4 15 8																
					129 2	68 9 7	4 15 8	4 17 6	4 2 6	46 16 9											

## Purchases Ledger.

<i>Dr.</i>		A. BROWN, WINDSOR.										(181) <i>Cr.</i>	
						19.. June 1	By Goods	..	56	7	17	6	
<i>Dr.</i>		T. TOMPKINS, LEEDS.										(182) <i>Cr.</i>	
						19.. June 6	By Goods ..	..	56	4	13	9	
<i>Dr.</i>		S. STARLING, NOTTINGHAM.										(183) <i>Cr.</i>	
						19.. June 15	By Goods ..	..	56	18	15	10	
<i>Dr.</i>		B. BERRY, NEWBURY.										(184) <i>Cr.</i>	
						19.. June 22	By Goods ..	..	56	26	5	0	
<i>Dr.</i>		R. W. GOODMAN, LONDON.										(185) <i>Cr.</i>	
						19.. June 28	By Goods ..	..	56	10	17	6	
<i>Dr.</i>		BLACK & CO., LONDON.										(186) <i>Cr.</i>	
						19.. June 13	By Goods ..	..	56	4	2	6	
<i>Dr.</i>		OUTSTANDING ACCOUNTS.										(187) <i>Cr.</i>	
						19.. June 24	By Sundries	..	56	46	16	9	
<i>Dr.</i>		H. HAWKE, LIVERPOOL.										(188) <i>Cr.</i>	
						19.. June 25	By Goods ..	..	56	4	17	6	
<i>Dr.</i>		WHITE & SONS, MANCHESTER.										(189) <i>Cr.</i>	
						19.. June 30	By Goods ..	..	56	4	15	8	

## General Ledger.

<i>Dr.</i>		PURCHASES.										(127) <i>Cr.</i>	
19.. June 30	To Sundry Crs.	..	56	68	9	7							



<i>Dr.</i>		COAL.										<i>(128)</i> <i>Cr.</i>	
19..	June 30	To Sundry Crs. ..	56	4	2	6							
<i>Dr.</i>		RENT, RATES, AND TAXES.										<i>(129)</i> <i>Cr.</i>	
19..	June 30	To Sundry Crs. ..	56	46	16	9							
<i>Dr.</i>		FURNITURE AND FIXTURES.										<i>(130)</i> <i>Cr.</i>	
19..	June 30	To Sundry Crs. ..	56	4	17	6							
<i>Dr.</i>		STATIONERY.										<i>(131)</i> <i>Cr.</i>	
19..	June 30	To Sundry Crs. ..	56	4	15	8							

**PURCHASES RETURNS.**—These are goods which have been sent back owing to some defect, or for any other reason. They are entered, usually from the **Debit Note Book**, into a Purchases Returns Book, the total of which is credited periodically to a Purchases Returns Account, the persons concerned being debited. Allowances claimed for short weight, breakage, etc., are frequently dealt with in the same way. (See **ALLOWANCES**.)

**Example.**—Goods to the value of £5 10s. 6d. are returned by us on 15th Jan. to Messrs. Brown and Robinson, as not being up to sample, and a debit note is sent them for this amount and for an overcharge of 10s. 8d. on other goods. Record this entry in the proper subsidiary books and post to Ledger.

#### Purchases Returns Book.

Date.	No. of Debit Note.	Name and Description.	Led. Fol.	Details.			Amount.		
19.. Jan. 15	36	Brown & Robinson Goods .. Overcharge ..		5	10	6	6	1	2
						£	6	1	2

Ledger.

Dr.		PURCHASES RETURNS.				Cr.	
				19..			
				Jan. 31	By Sundries	..	6 1 2

Dr.		BROWN & ROBINSON.				Cr.	
19..							
Jan. 15	To Returns ..	..	6	1	2		

Where a business comprises different departments, the Purchase Returns Book will be kept in tabular form similar to the example shown under Sales Returns Book.

QUALIFIED ACCEPTANCE.—(See BILLS OF EXCHANGE.)

QUARTER DAYS.—In England and Ireland these are as follows—

Lady Day, on 25th March ;  
 Midsummer, on 24th June ;  
 Michaelmas, on 29th September  
 Christmas, on 25th December.

In Scotland they are the following—

Candlemas, on 2nd February;  
Whitsun, on 15th May;  
Lammas, on 1st August;  
Martinmas, on 11th November.

These are the last days of each of the quarters of the year on which payment of rent or interest falls due.

**QUID PRO QUO.**—This is a Latin phrase meaning "one thing for another." It denotes in business a mutual concession between parties.

**QUIT RENT** (Free Rent).—The rent paid in a manor by which the tenant is freed from all other services.

**QUORUM.**—The number of members of an administrative body who must be present in order for the business transacted to be valid. The term is used in reference to the meetings of the shareholders or directors of a limited company.

**RACK RENT.**—The *full* annual rent of any tenement or property. Formerly it denoted a rent raised to its highest possible point.

**RAILWAY COMPANIES ACCOUNTS.**—These are kept on the Double Account System to which the student should

refer. The accounts of a railway company are governed by the Railway Companies (Accounts and Returns) Act, 1911, which came into operation on the 1st January, 1913. By this Act, every railway company must prepare, annually, accounts and returns in accordance with the form set out in the First Schedule to the Act, and must submit their accounts to their auditors in that form. The accounts and returns must be signed by the officer of the company responsible for their correctness or any part thereof; and, in the case of an incorporated railway company, by the chairman or deputy-chairman of the directors of the company. The accounts should be made up to the 31st December, or such other date as the Board of Trade may fix to meet special circumstances. Six copies of the accounts and returns are to be sent to the Board of Trade not later than sixty days after the expiration of the year for which the accounts are made up. The copy of the accounts numbered 1a, 1b, 1c, 3, and 18 in the First Schedule to the Act must be filed by the Registrar of Companies in England; and if any part of the railway is situated in Scotland or Ireland, a copy of these accounts must be also filed by the Registrar of Companies in Scotland or Ireland. For this purpose, the Board of Trade shall, on receiving copies of the accounts and returns, furnish one of these copies to any Registrar by whom accounts are to be filed. Any person may inspect the accounts filed by any Registrar of Companies on paying a fee of 1s. for each inspection as regards each railway company, and may require a copy or extract of any of these accounts, to be certified by the Registrar, on paying such fee as the Board of Trade may appoint, not exceeding 6d. for each folio.

On the following pages are some of the more important of the prescribed forms; but, in addition to these, there are many abstracts and statistical returns for example: Abstracts showing Locomotive Running Expenses, Expenses of Collection and Delivery of Parcels and Goods, Receipts and Payments in respect of Running Power; Expenses, Receipts and Expenditure in respect of Omnibuses, Steamboats, Canals, Docks, Harbours, Wharves, Hotels, etc. The statistical returns include particulars of Mileage of Lines, Rolling Stock, Horses and Road Vehicles, Steamboats, Canals, Docks, Harbours, Wharves, Hotels, Passenger Traffic and Receipts, Goods Traffic and Receipts, Number of Live Stock carried by Goods Trains, etc.

No. 1 (a).—NOMINAL CAPITAL AUTHORISED, AND CREATED BY THE COMPANY.

SPECIAL ACTS.	CAPITAL AUTHORISED			CAPITAL CREATED			BALANCE.		
	Shares and Stock.	Loans or Debenture Stock.	Total.	Shares and Stock.	Loans or Debenture Stock.	Total.	Shares and Stock.	Loans or Debenture Stock.	Total.
I. Special Acts conferring capital powers which have been fully exercised.	£	£	£	£	£	£	£	£	£
Totals.									
II. Special Acts conferring capital powers which have not yet been fully exercised [Each such Act to be stated here separately in order of date.]									
1.									
2.									
&c.									
Total . . . . .									

NOTE.—Where a special Act has been consolidated in a later Act, a reference to the consolidating Act is sufficient.

No. 2.—SHARE CAPITAL AND STOCK CREATED, AS PER STATEMENT No. 1 (a), SHOWING THE PROPORTION ISSUED.

Description.	Amount created.	Amount issued.	Nominal additions to or deductions from Capital.	Amount on which Dividend is payable.	Amount which does not rank for Dividend until a future date.	Calls in arrear.	Amount uncalled.	Amount unissued.
[Each class of shares and stock to be stated in order of date of creation, with the preferential or fixed dividends, if any, to which it is entitled, and any other conditions attached to it.]	£	£	£	£	£	£	£	£
Total . . . . .								

NOTE.—A column to be provided where necessary between "amount created" and "amount issued" to show "additional stock issued to provide authorised money."

# CAPITAL RAISED BY LOANS AND DEBENTURE STOCK.

No. 3.

	RAISED BY LOANS.				RAISED BY ISSUE OF DEBENTURE STOCKS.					Total raised by Loans or Debenture Stocks
	At per Cent.	At per Cent.	At per Cent.	Total Loans.	Amount of Stock.	Nominal additions or deductions on Conversion	Existing Amount of Stock			Total Debenture Stocks.
							At per Cent.	At per Cent.	At per Cent.	
Existing at	£	£	£	£	£	£	£	£	£	£ s. d.
Ditto at										
Increase	.. ..									
Decrease	.. ..									
Total Amount authorised to be raised by Loans and by Debenture Stocks in respect of Capital created, as per Statement No 1										
<p>Less—Amount created but not yet available .. .. .</p> <p>Reduction of borrowing power in respect of interest paid out of capital .. .. .</p> <p>Capitalised value of rentcharges, annuities, or feu duties, in accordance with Section 5 of the Lands Clauses Consolidation Acts Amendment Act, 1860 .. .. .</p> <p>Other deductions, if any .. .. .</p> <p>Total deductions .. .. .</p>										
Total amount raised by loans and debenture stock as above .. .. .										
Balance being available borrowing powers at .. .. .										

To Expenditure.	Amount expended to—			Amount expended during Year, as per No. 5.			Total.	By Receipts.	Amount received to—		Amount received during Year.	Total.		
	£	s.	d.	£	s.	d.	£ s. d.		£	s.	d.	£	s.	d.
Lines open for traffic .. ..								Shares and Stocks (No. 2) .. ..						
Lines not open for traffic—								Loans (No. 3) .. ..						
New lines .. ..								Debenture Stock (No. 3) .. ..						
Widening of existing lines .. ..														
Lines leased .. ..														
Lines jointly owned .. ..														
Lines jointly leased .. ..														
Rolling stock .. ..														
Manufacturing and repairing works and plant—														
Land and buildings .. ..														
Plant and machinery .. ..														
Total capital expended upon railway .. ..								Premiums on Shares and Stocks	£					
Horses .. ..								Premiums on Debenture Stock						
Road vehicles employed in the collection and delivery of parcels, goods, and passengers—								Total premiums.. ..						
1. Goods and parcels road vehicles .. ..														
2. Passenger road vehicles .. ..								Discounts on Shares and Stocks						
Steamboats .. ..								Discounts on Debenture Stock						
Canals .. ..								Total Discounts .. ..						
Docks, harbours, and wharves .. ..								Balance of Premiums and Discounts..						
Hotels .. ..								TOTAL RECEIPTS .. ..						
Electric power stations, etc. .. ..								By Balance .. ..						
Land, property, etc., not forming part of the railway or stations—								TOTAL						
(a) Used in connexion with railway working .. ..														
(b) Not used in connexion with railway working .. ..														
Other industries (to be stated separately) .. ..														
Subscriptions to other companies (for details, see Table No. 4 (d).)														
Special items .. ..														
TOTAL EXPENDITURE .. ..														
To Balance .. ..														
TOTAL .. ..														





No. 6.—ESTIMATE OF FURTHER EXPENDITURE ON CAPITAL ACCOUNT.

Expenditure to date on Principal Works in progress.	Estimated further Expenditure.		
	During the Year ending	Subsequently until completion.	Total.
£	£	£	£
Purchase of railways (particulars) ..			
Lines belonging to the Company open for traffic (particulars) ..			
Lines belonging to the Company not open for traffic—			
New lines (particulars) ..			
Widenings of and additions to existing lines (particulars) ..			
Lines leased (particulars) ..			
Lines jointly owned (particulars) ..			
Lines jointly leased (particulars) ..			
Rolling stock ..			
Manufacturing and repairing works and plant ..	..		
Steamboats ..			
Canals ..			
Docks, harbours, and wharves ..			
Hotels ..			
Electric power stations, etc. ..			
Subscriptions to other companies ..			
Special items ..			
Miscellaneous ..			
Total ..			
Works not yet commenced and in abeyance ..			

No. 7.—CAPITAL POWERS AND OTHER ASSETS AVAILABLE TO MEET FURTHER EXPENDITURE ON CAPITAL ACCOUNT.

	£	£
Stock, share, and loan capital authorised but not yet created (as per Statement No. 1 (a)). ..		
Stock and share capital created, but not yet received (as per Statement No. 2)—		
Calls in arrear ..		
Amount uncalled ..		
Amount unissued ..		
Loan capital created, but not yet available (as per Statement No. 3) ..		
Available borrowing powers (as per Statement No. 3) ..		
Add or Deduct } balance at { Credit or Debit } (as per Capital Account No.4)		
Total ..		

No. 8.—REVENUE RECEIPTS AND EXPENDITURE OF THE  
WHOLE UNDERTAKING.

See State- ment.		Gross Re- ceipts.	Ex- pendi- ture.	Net Re- ceipts.	Year 19 .		
					Gross Re- ceipts.	Ex- pendi- ture.	Net Re- ceipts.
		£ s. d.	£ s. d.	£ s. d.	£	£	£
10	Railway .. .. .						
11	Omnibuses and other passenger vehicles, not running on the railways .. .. .						
12	Steamboats .. .. .						
13	Canals .. .. .						
14	Docks, harbours, and wharves .. .. .						
15	Hotels, and refreshment rooms and cars where catering is carried on by the company ..						
16	Other separate busi- nesses carried on by the company (in detail) .. .. .						
	Total .. .. .	£					
Miscellaneous Receipts (Net)—							
	Rents from houses and lands .. .. .						
	Rents from hotels .. .. .						
	Other rents, including lump-sum tolls ..						
	Interest and dividends from investments in other companies (in detail) .. .. .						
	Transfer fees .. .. .						
	General interest .. .. .						
	Special items .. .. .						
	Total net income .. .. .						

## No. 9.—PROPOSED APPROPRIATION OF NET INCOME.

		Year 19
	£ s. d.	£
Balance brought forward from last year's account .. ..		
Net income (as per Statement No. 8) .. ..		
Appropriation from Reserve .. ..		
Total .. ..		
	£ s. d.	
Deduct—Interest, rentals, and other fixed charges (to be stated by each company in order of priority)—		
Interest on superannuation and other funds .. ..		
Rentcharges (or feu duties) and annuities .. ..		
Chief rents, wayleaves, etc., including lump-sum tolls .. ..		
Interest on loans .. ..		
Interest on debenture stocks (details) .. ..		
Rent of and guaranteed interest on leased and worked lines .. ..		
Interest on Lloyd's bonds .. ..		
General interest .. ..		
Special items (if any) .. ..		
Total .. ..		
Balance after payment of fixed charges.	£ s. d.	
Appropriation to reserve and other special purposes—		
(Details)		
Total .. ..		
Dividends on guaranteed and preference stocks—		
(Details)		
Total .. ..		
	£ s. d.	
Balance available for dividends on ordinary stock—		
(Details)		
Total .. ..		

## No. 9 (a).—STATEMENT OF INTERIM DIVIDENDS PAID.

	£ s. d.	£
Balance available for dividends, Year 19 .. ..		
Deduct—	£ s. d.	
Interim dividends paid (particulars) .. ..		
Undivided balance at 31st December, carried to balance sheet .. ..		

Dr.

## No. 10.—RECEIPTS AND EXPENDITURE

To Expenditure	—	Year 19	Percentage of Traffic Receipts	
			....	....
	£ s. d.	£	Per cent.	Per cent.
See Abstracts				
A : Maintenance and renewal of way and works .. ..				
B : Maintenance and renewal of rolling stock—				
(1) : Locomotives ..	£ s. d.			
(2) : Carriages ..				
(3) : Wagons ..				
	£ s. d.			
C : Locomotive running expenses ..				
D : Traffic expenses ..				
E : General charges .. ..				
Law charges .. ..				
Parliamentary expenses ..				
Compensation (accidents and losses)—	£ s. d.			
Passengers ..				
Workmen .. ..				
Damage and loss of goods, property, etc.				
Rates .. ..				
Taxes .. ..				
Government duty .. ..				
G : Running powers (balance, debit or credit) .. ..				
Total traffic expenditure	£			
J : Joint lines <sup>1</sup> .. ..				
Miscellaneous .. ..				
Total expenditure ..	£			
Net receipts .. ..	£			
Total .. ..	£			

NOTE.—Gross receipts to include the whole of the receipts from traffic the company's line by trains of other companies and no annual payment is The proportion of traffic receipts accruing to other companies in respect of as a deduction from the company's traffic receipts in this statement, but to proportion of the traffic receipts accruing to the company in respect of trains the traffic receipts in this statement, and entered as receipts in the Running

<sup>1</sup> Under this heading should be entered only the expenditure or receipts of jointly joint committee and are not already embodied in those of the parent companies (*see* expenditure to be spread over the various heads on the respective sides of this Account.

By Gross Receipts.	—	—	Year 19	Percentage of Traffic Receipts.	
				....	....
See Abstracts.					
Passenger train traffic—					
Ordinary passengers :					
First class .. ..					
Second class .. ..					
Third class .. ..					
Season tickets :					
First class .. ..					
Second class .. ..					
Third class .. ..					
Workmen's tickets .					
Total receipts from					
passengers .. ..					
Mails .. ..					
Parcels up to 2 cwt.,					
parcels post, and					
excess luggage ..					
Other merchandise by					
passenger trains ..					
F : Less expenses of col-					
lection and delivery					
Total passenger train					
receipts .. ..					
Goods train traffic—					
£ s. d.					
Merchandise .. ..					
F : Less expenses					
of collec-					
tion and					
delivery £					
Live stock .. ..	..				
Coal, coke, and patent					
fuel .. ..	..				
Other minerals ..					
Total goods train receipts	£				
Total traffic receipts	..£				
H : Mileage, demurrage, & wagon hire					
J : Joint lines <sup>1</sup> .. ..	..				
Miscellaneous .. ..	..				
Total .. ..	..£				

carried over the company's lines, except where (a) the traffic is carried over made therefor, or where (b) the payment made is by way of a fixed rent. running powers exercised by them over the company's lines not to be treated be entered as a payment in the Running Powers Account (Abstract G). The run by the company over the lines of other companies to be excluded from Powers Account.

owned and jointly leased lines in respect of which the accounts are prepared by or for the Abstract J). In the case of other joint lines, the company's proportion of the revenue and



Dr.

No. 18.—GENERAL BALANCE SHEET.

Cr.

		Year 19			Year 19
	£s.d.	£		£s.d.	£
To capital account, balance at credit thereof, as per Account No. 4. ..			By capital account, balance at debit thereof as per Account No. 4. ..		
„ Amount due to bankers			„ Cash at bankers and in hand.		
„ Temporary loans and calls paid in advance			„ Cash on deposit at interest.		
„ Lloyd's bonds .. ..					
„ Unpaid interest and dividends .. ..			„ Investments in Consols and Government securities .. ..		
„ Interest and dividends payable or accruing and provided for ..			„ Investments in stocks and shares held by the Company, not charged as capital expenditure .. ..		
„ Amount due to railway companies and committees .. ..			„ Investment of superannuation and other provident funds .. ..		
„ Amount due to railway clearing houses ..			„ Stock of stores and materials .. ..		
„ Savings bank .. ..			„ Outstanding traffic accounts .. ..		
„ Superannuation and other provident funds			„ Amount due by railway companies and committees .. ..		
„ Accounts payable ..			„ Amount due by railway clearing houses.		
			„ Amount due by Postmaster-General ..		
„ Liabilities accrued ..			„ Accounts receivable ..		
„ Miscellaneous accounts					
„ Special items (to be detailed).			„ Miscellaneous accounts		
„ Fire insurance fund ..					
„ Railway .. ..			„ Suspense accounts (if any) to be enumerated. .. ..		
„ Depreciation funds—			„ Special items (to be detailed). .. ..		
„ Steamboats (including insurance fund) ..					
„ Other businesses ..					
„ General reserve fund ..					
	£ s. d.				
„ Balance available for dividends and reserve as per Account No. 9.					
„ Less interim dividends paid as per Statement No. 9 (a).					

**RATEABLE VALUE.**—The value of property after deducting from it the probable annual average cost of repairs, insurance, and other expenses. It is not the same as Rental Value.

**RATE OF EXCHANGE.**—The amount in the currency of one country which, on a given date, is offered for a certain sum in the currency of another country. When the rate offered for bills on foreign countries is high, the exchange is said to be favourable; when the rate is low, the exchange is said to be unfavourable.

**RATES AND TAXES.**—Sums levied by the Government and municipal bodies for public purposes. A separate account is sometimes opened for these; very often, however, they are merged with the rent under the heading of Rent, Rates and Taxes. In the books of Limited Companies, Income Tax is frequently kept in an account by itself.

**RATES OF DEPRECIATION.**—(See DEPRECIATION.)

**RAW MATERIALS.**—(See COST ACCOUNTS and MANUFACTURING ACCOUNTS.)

**R/D.**—Refer to Drawer. (See CHEQUE.)

**REAL ACCOUNTS.**—(See ACCOUNT.)

**REAL ESTATE.**—Immovable property such as land (freehold or copyhold), in contradistinction to personal estate or movable property. Leaseholds, which are really property in land, are, however, reckoned as personalty.

**REALISATION ACCOUNT.**—(See COMPANY ACCOUNTS and PARTNERSHIP ACCOUNTS.)

**REALISATION STATEMENT.**—(See TRUSTEE and WINDING UP.)

**REALISED PROFITS.**—Profits actually made and existing in Cash, as when investments have been sold for more than their book value. Until such investments had been sold at the enhanced market value, such profits would be considered as “paper profits.”

**REALTY.**—Real Estate.

**REALTY DUTY.**—(See EXECUTORSHIP ACCOUNTS.)

**RE-ASSURANCES.**—(See ASSURANCE.)

**REBATE.**—An Allowance or Discount on a bill of exchange paid before the due date. In Bank Accounts the rebate on bills discounted is usually apportioned, the amount pertaining to bills not matured at balancing time being carried forward to the next half-year's accounts. The term is often used in the sense of “abatement.” Strictly speaking, however, the word implies a return of interest

previously paid ; it is derived from the French *rebattre* = to beat back.

The term is also used in business to denote the draw-back in price when a certain quantity of goods has been taken. Thus, a cycle firm might enter into an agreement to buy tyres at so much per pair, with the additional advantage that if, in the course of the season, it purchases a certain number of tyres, it will be entitled to a rebate of so much per pair on every pair purchased. Rebates are also allowed by Shipping Companies in connection with their freight charges on goods. If at balancing time such rebates are due but have not been received, a Reserve must be made in order to incorporate them into the current period's accounts.

**RECEIPT.**—A written acknowledgment of money having been received. Every receipt for £2 or over must bear a 2d. stamp, otherwise it has no legal effect. There are, however, certain exceptions.

**RECEIPTS.**—(See CASH BOOK.)

**RECEIPTS AND ISSUES OF STORES.**—(See CONTRACTS and COST ACCOUNTS.)

**RECEIPTS AND PAYMENTS ACCOUNT.**—(See INCOME AND EXPENDITURE ACCOUNT.)

**RECEIVER.**—A person appointed by the Court to take possession of property pending an action. In some cases the person is appointed both **Receiver and Manager**, as, for instance, in an action by the Debenture holders of a joint stock company for recovery of their loans and interest. This enables him to carry on the business. A receiver may also be appointed by a mortgagee.

**RECEIVER'S CASH ACCOUNTS.**—A Receiver appointed by the Court must keep separate accounts of receipts and payments, both for Real and Personal Estate. On pages 627-628 are the prescribed forms.

**RECEIVING ORDER.**—An order made by the court at the commencement of the bankruptcy proceedings, by virtue of which the Official Receiver takes charge of the debtor's property in order to protect it against the creditors, until some arrangement has been come to, or until the debtor has been adjudicated a bankrupt.

**RECONCILIATION ACCOUNT OR STATEMENT.**—This is a statement drawn up in order to reconcile or bring into agreement the Bank Balance, *as shown by the Bank column of the Cash Book*, with the Bank Balance, *as shown by the Pass*



## RECEIVER'S CASH ACCOUNTS (contd.).

## Form 2.—Personalty—

## RECEIPTS ON ACCOUNT OF PERSONAL ESTATE.

No. of Item.	Date when Received.	Names of Persons from whom Received.	On what Account Received.	Amount Received.

## PAYMENTS AND ALLOWANCES ON ACCOUNT OF PERSONAL ESTATE.

No. of Item	Date when Paid or Allowed.	Names of Persons to whom Paid or Allowed.	For what Purpose Paid or Allowed.	Amount Paid or Allowed.

*Book.* The two balances hardly ever agree. Cheques paid into the bank on the last day of the month will not appear in the Pass Book for that month, as they will not be "cleared" in time. Again, cheques paid away to creditors are entered in the Bank Column of the Cash Book on the same day; they will not, however, appear in the Pass Book until the creditors have cashed them. At the end of the month, when the Cash Book is checked with the Pass Book, there will be items not ticked in the Bank columns on both sides, for the simple reason that they do not appear in the Bank Pass Book. These items must be collected and recorded in the Reconciliation Statement, which is usually entered in the Cash Book itself at the end of each month, thus—

### Reconciliation Statement.

Bank Balance as per Pass Book (say)			900	
Add cheques paid in but not cleared .. .. .	150		150	
Total .. .. .			1,050	
Deduct Cheques paid away but not yet presented—				
A. Brown & Son, Ltd. . .	120			
B. Smith & Co. . . . .	30			
T. Jones & Sons . . . .	50		200	
Bank Balance as per Cash Book ..		£	850	

### RECONSTRUCTION OF COMPANY.—(See COMPANY.)

**RECORD BOOK.**—The book kept by a trustee-in-bankruptcy, in which are recorded the minutes of all meetings, the resolutions passed, and particulars in order of date of how the estate has been administered. It must also be kept by the liquidator in the compulsory winding up of joint stock companies.

**RÉCOURSE.**—The right of the holder of a bill of exchange to require payment of it from some person other than the acceptor, *i.e.*, from any indorser or from the drawer. (See BILL OF EXCHANGE.)

**RECTIFICATION OF ERRORS.**—Errors are of two kinds (*a*) omission, (*b*) commission.

**Errors of Omission** are rectified by posting the item or items previously left out.



**Errors of Commission** are rectified by means of a compensating entry. Thus, if an item has been debited to A. Smith instead of to B. Brown, a Compensating journal entry *Brown Dr. to Smith* will put the matter right. Errors of commission are also rectified by striking out the wrong figure or amount and inserting the correct one above it.

**REDEEMABLE DEAD RENT.**—(See ROYALTIES.)

**REDEEMABLE DEBENTURES.**—(See COMPANY.)

**REDEMPTION FUND.**—(See DEPRECIATION AND REDEMPTION OF DEBENTURES.)

**REDEMPTION OF DEBENTURES.**—By this term is meant the repayment at the agreed time, by a Limited Company, of the money lent to it for a certain number of years. Debentures may be redeemed in various ways: (1) By means of an annual Sinking Fund; (2) Out of Profits; (3) Out of Capital; (4) By Purchase in the open market.

(1) By means of a Sinking Fund.

**Example.**—A Company borrowed £8,000 Debentures, at a discount of 5 per cent., repayable *at par* at the end of ten years, and decides to provide for redemption by means of an annual Sinking Fund at 5 per cent. compound interest. Show the subsidiary book entries, the Ledger Accounts affected, and explain the procedure at the end of the period.

Reference to Table B, given under Depreciation, shows that the amount required to be set aside for ten years at 5 per cent. compound interest in order to provide £1 is  $\cdot 079504$  of a £. The sum required to provide £8,000 will therefore be  $\text{£}8000 \times \cdot 079504$ , which gives us  $\text{£}636 \text{ 0s. } 8\text{d.}$

JOURNAL.				Dr.	Cr.
Year.					
1	Appropriation of Profit A/c .. ..			636 0 8	
	To Debenture Redemption Fund A/c ..				636 0 8
	Annual Sinking Fund instalment ..				
2	Etc.				

CASH BOOK.				Dr.	Cr.
Year.			Year.		
2	To Debenture Redemption Fund A/c (Interest on Investments) ..	31 16 8	1	By Investment A/c (annual instalment) .. ..	636 0 8
3	Etc.		2	By Investment A/c (instalment plus previous year's Interest) .. ..	667 16 8
			3	Etc.	

The Ledger Accounts will appear as follows—

Dr.				DEBENTURES.				Cr.			
Year.	To Cash .. ..	8,000		Year.	By Sundries .. ..	8,000					
10				1							

Dr.				DEBENTURE REDEMPTION FUND ACCOUNT.				Cr.			
Year.				Year.							
1	To Balance c/d ..	636	0 8	1	By P. & L. App. A/c	636	0 8				
2	To Balance c/d ..	1,303	17 4	2	By Balance b/d ..	636	0 8				
					„ Cash (Interest) ..	31	16				
					„ P. & L. App. A/c	636	0 8				
		1,303	17 4			1,303	17 4				
3	To Balance c/d ..	2,005	1 10	3	By Balance b/d ..	1,303	17 4				
					„ Cash (Interest) ..	65	3 10				
					„ P. & L. App. A/c	636	0 8				
		2,005	1 10			2,005	1 10				
4	To Balance c/d ..	2,741	7 7	4	By Balance b/d ..	2,005	1 10				
					„ Cash (Interest) ..	100	5 1				
					„ P. & L. App. A/c	636	0 8				
		2,741	7 7			2,741	7 7				
5	To Balance c/d ..	3,514	9 7	5	By Balance b/d ..	2,741	7 7				
					„ Cash (Interest) ..	137	1 4				
					„ P. & L. App. A/c	636	0 8				
		3,514	9 7			3,514	9 7				
6	To Balance c/d ..	4,326	4 9	6	By Balance b/d ..	3,514	9 7				
					„ Cash (Interest) ..	175	14 6				
					„ P. & L. App. A/c	636	0 8				
		4,326	4 9			4,326	4 9				
7	To Balance c/d ..	5,178	11 8	7	By Balance b/d ..	4,326	4 9				
					„ Cash (Interest) ..	216	6 3				
					„ P. & L. App. A/c	636	0 8				
		5,178	11 8			5,178	11 8				
8	To Balance c/d ..	6,073	10 11	8	By Balance b/d ..	5,178	11 8				
					„ Cash (Interest) ..	258	18 7				
					„ P. & L. App. A/c	636	0 8				
		6,073	10 11			6,073	10 11				
9	To Balance c/d ..	7,013	5 1	9	By Balance b/d ..	6,073	10 11				
					„ Cash (Interest) ..	303	13 6				
					„ P. & L. App. A/c	636	0 8				
		7,013	5 1			7,013	5 1				
10	To Transfer to Re- serve Fund A/c	8,000		10	By Balance b/d ..	7,013	5 1				
					„ Cash (Interest) ..	350	13 3				
					„ P. & L. App. A/c	636	1 8				
		8,000				8,000					

## INVESTMENTS ON ACCOUNT OF DEBENTURE REDEMPTION

Dr.				FUND.				Cr.			
Year.				Year.							
1	To Cash .. ..	636	0 8	1	By Balance c/d ..	636	0 8				
2	To Balance b/d ..	636	0 8	2	By Balance c/d ..	1,303	17 4				
	„ Cash (Instalment and Interest) ..	667	16 8								
		1,303	17 4			1,303	17 4				
3	To Balance b/d ..	1,303	17 4	3	By Balance c/d ..	2,005	1 10				
	„ Cash .. ..	701	4 6								
		2,005	1 10			2,005	1 10				
4	To Balance b/d ..	2,005	1 10	4	By Balance c/d ..	2,741	7 7				
	„ Cash .. ..	736	5 9								
		2,741	7 7			2,741	7 7				
5	To Balance b/d ..	2,741	7 7	5	By Balance c/d ..	3,514	9 7				
	„ Cash] .. ..	773	2 0								
		3,514	9 7			3,514	9 7				
6	To Balance b/d ..	3,514	9 7	6	By Balance c/d ..	4,326	4 9				
	„ Cash .. ..	811	15 2								
		4,326	4 9			4,326	4 9				
7	To Balance b/d ..	4,326	4 9	7	By Balance c/d ..	5,178	11 8				
	„ Cash .. ..	852	6 11								
		5,178	11 8			5,178	11 8				
8	To Balance b/d ..	5,178	11 8	8	By Balance c/d ..	6,073	10 11				
	„ Cash .. ..	894	19 3								
		6,073	10 11			6,073	10 11				
9	To Balance b/d ..	6,073	10 11	9	By Balance c/d ..	7,013	5 1				
	„ Cash .. ..	939	14 2								
		7,013	5 1			7,013	5 1				
10	To Balance b/d ..	7,013	5 1	10	By Cash .. ..	8,000					
	„ Cash .. ..	986	14 11								
		8,000				8,000					

Note 1.—Owing to fractions of a 1d. having been neglected, there will be a difference of 1s. to adjust in the last instalment.

Note 2.—The last year the Cash would not be invested but would be transferred to the Investment Account, so that the full money will be in hand with which to pay off the Debentures.

Note 3.—In actual practice income tax would be deducted from the interest on the investments. The latter, on realisation, might also not produce their book value. Any deficiency would have to be made good out of profits. These two disadvantages have led to the adoption of the Insurance Policy Method, explained under DEPRECIATION, by which the exact capital sum required is definitely assured.

The procedure at the end of the period will be as follows—

(1) The Investments will be realised. The money received will be debited in the Cash Book and credited to the Investment Account, thus closing it.

(2) The Debentures will be repaid out of the money received, Cash being credited and Debentures Account debited, thus closing the latter.

(3) The accumulated profits, as per the Debenture Redemption Fund Account, will be transferred to the Reserve Fund Account. The former account will thus be closed.

Suppose the Debentures had been issued at par repayable *at a premium*—say at 105—the procedure would be the same except that £8,400 ( $105 \times 80$ ) would have to be provided instead of £8,000. The annual Sinking Fund Instalment in such a case would be  $\pounds 0.079504 \times 8400$  or £667 16s. 8d. At the end of the period the Debenture Redemption Fund Account would have £8,400 standing to its credit. The £400 premium would be transferred by Journal entry to the Debentures Account, and the remaining £8,000 would be transferred to the Reserve Fund Account. The Debentures Account and the Debenture Redemption Fund Account would then appear as under—

Dr. DEBENTURE REDEMPTION FUND ACCOUNT. Cr.					
Year. 10				Year. 10	
	To Debentures A/c (transfer of Pre- mium) .. ..	400			By Balance .. ..
	To Reserve Fund A/c .. ..	8,000			" Cash (Interest) .. ..
					" Approp. A/c .. ..
		8,400			
		<u>8,400</u>			

Dr. DEBENTURES ACCOUNT. Cr.					
Year. 10				Year. 10	
	To Cash (amount paid to Debenture Holders) .. ..	8,400			By Cash .. ..
					" Deb. Redemption Fund A/c (Pre- mium) .. ..
		8,400			
		<u>8,400</u>			

## (2) Out of Profits.

**Example.**—A Company has a balance of £4,500 at the credit of its Profit and Loss Account. Instead of declaring a dividend, it is resolved to utilise the profits to repay £4,000 debentures now due at a premium of 5 per cent. Make the



Dr.		DEBENTURE HOLDERS.				Cr.	
	To Cash .. ..	4,200			By Debentures A/c ..	4,000	
					„ Premium on Re- payment of De- bentures A/c ..	200	
		4,200				4,200	

Dr.		PREMIUM ON PAYMENT OF DEBENTURES.				Cr.	
	To Deb. Holders A/c	200			By Appropriation A/c	200	

Dr.		RESERVE FUND ACCOUNT.				Cr.	
					By Appropriation A/c	4,000	

Suppose the Debentures had been repayable *at par*, the procedure would have been the same except that there would have been no premium to provide.

The objection to the foregoing method is that it is unscientific. Instead of one year's profits bearing the whole of the charge for repayment, the charge should be borne equally by all those years which have enjoyed the use of the Debentures.

### (3) Out of Capital.

**Example.**—A Company issued £10,000 Debentures at a discount of 5 per cent., repayable *at par* by annual drawings of £2,000. Show the Debentures Account, etc., in the Ledger over the whole period.

Dr.		CASH BOOK.				Cr.	
				Year.			
				1	By Debs. Redeemed A/c	2,000	
				2	By Debs. Redeemed A/c	2,000	
				3	By Debs. Redeemed A/c	2,000	
				4	By Debs. Redeemed A/c	2,000	
				5	By Debs. Redeemed A/c	2,000	

Dr.		DEBENTURES REDEEMED ACCOUNT.				Cr.	
Year.				Year.			
1	To Cash .. ..	2,000		1	By Debentures A/c ..	2,000	
2	To Cash .. ..	2,000		2	By Debentures A/c ..	2,000	
3	To Cash .. ..	2,000		3	By Debentures A/c ..	2,000	
4	To Cash .. ..	2,000		4	By Debentures A/c ..	2,000	
5	To Cash .. ..	2,000		5	By Debentures A/c ..	2,000	



Dr.		DEBENTURES ACCOUNT.				Cr.	
Year.					Year.		
1	To Debs. Redeemed A/c	2,000			1	By Sundries ..	10,000
	„ Balance c/d ..	8,000					
		10,000					10,000
2	To Debs. Redeemed A/c	2,000			2	By Balance b/d ..	8,000
	„ Balance c/d ..	6,000					8,000
		8,000					
3	To Debs. Redeemed A/c	2,000			3	By Balance b/d ..	6,000
	„ Balance c/d ..	4,000					6,000
		6,000					
4	To Debs. Redeemed A/c	2,000			4	By Balance b/d ..	4,000
	„ Balance c/d ..	2,000					4,000
		4,000					
5	To Debs. Redeemed A/c	2,000			5	By Balance b/d ..	2,000

If the Debentures had been issued at par repayable *at a premium*—say—of 5 per cent., the annual premium of £100 would have to be provided out of profits each year.

Debentures may also be redeemed out of capital by means of a Sinking Fund. In such cases, the requisite amount of cash is invested each year without a corresponding charge being made against the profits. Again, Debentures are sometimes redeemed out of capital by issuing a fresh amount at the end of the period, and utilising the money thus received to repay the previous lot of Debentures falling due.

#### (4) By Purchase in the Open Market.

**Example.**—A Company has power under its Articles of Association to apply its profits to the purchase of its Debenture Stock in the open market and to cancel same. The amount standing to the credit of Profit and Loss is £10,000, and to the credit of Debenture Stock Account, £50,000. The Company's bank balance is £25,000. The directors decide to expend £10,000 of it in purchasing and cancelling further Debentures, the market price of which inclusive of all charges is £90 per £100 stock. Show the Ledger accounts, etc., affected.

Dr.		CASH BOOK.				Cr.	
		Bank.				Bank.	
To Balance .. ..		25,000		By Debenture Stock, £11,111 2s. 3d. @ 90 % .. ..		10,000	

		DEBENTURE STOCK.				Cr.	
To Cash (purchase of £11,111 2s. 3d. @ 90 % .. ..		10,000		By Balance .. ..		50,000	
„ Reserve Fund A/c (transfer of profit on redemption)..		1,111 2 3					
„ Balance c/d ..		38,888 17 9					
		50,000				50,000	
				By Balance b/d ..		38,888 17 9	

Dr.		APPROPRIATION OF PROFIT ACCOUNT.				Cr.	
To Transfer to Re- serve Fund A/c..		10,000		By Profit and Loss A/c		10,000	0 0

Dr.		RESERVE FUND ACCOUNT.				Cr.	
				By Approp. A/c ..		10,000	
				„ Deb. Stock A/c ..		1,111 2 3	
						11,111 2 3	

Note.—The profit on redemption is a Capital profit, and hence is transferred to the Reserve Fund Account.

**RED INK INTEREST.**—(See ACCOUNT CURRENT.)

**REDUCING BALANCE.**—(See DEPRECIATION.)

**REDUCTION OF CAPITAL.**—Sections 46 and 47 of the Companies (Consolidation) Act, 1908, enact as follows—

Subject to confirmation by the court, a company limited by shares, if so authorised by its articles, may by special resolution reduce its share capital in any way, and in particular (without prejudice to the generality of the foregoing power) may—

- Extinguish or reduce the liability on any of its shares in respect of share capital not paid up; or
- Either with or without extinguishing or reducing liability on any of its shares, cancel any paid-up share capital which is lost or unrepresented by available assets; or
- Either with or without extinguishing or reducing liability on any of its shares, pay off any paid-up share capital which is in excess of the wants of the company,

and may, if and so far as is necessary, alter its memorandum by reducing the amount of its share capital and of its shares accordingly.

Where a company has passed and confirmed a resolution for reducing share capital it may apply by petition to the court for an order confirming the reduction.

The court, however, will first require the debts of objecting creditors to be either secured or discharged. The order of the Court must also be registered before it takes effect.

**Addition to Name of Company of the words "and Reduced."**—

**By Section 48 of the Act—**

On and from the confirmation by a company of a resolution for reducing share capital, or where the reduction does not involve either the diminution of any liability in respect of unpaid share capital or the payment to any shareholder of any paid-up share capital, then on and from the presentation of the petition for confirming the reduction, the company shall add to its name, until such date as the court may fix, the words "and reduced," as the last words in its name, and those words shall, until that date, be deemed to be part of the name of the company:

Provided that, where the reduction does not involve either the diminution of any liability in respect of unpaid share capital or the payment to any shareholder of any paid-up share capital, the court may, if it thinks expedient, dispense altogether with the addition of the words "and reduced."

### (1) Writing off Losses.

**Example.**—Having sustained heavy losses, a Limited Company obtains the sanction of the court to reduce its capital from 120,000 shares of £1 each, 10s. per share paid up, to 120,000 shares of £1 each, 5s. per share paid up. Make the necessary Journal entry, and state how the Share Ledger and Certificates will be adjusted.

JOURNAL.				Dr.	Cr.			
Share Capital A/c	..	..	..	30,000				
To Profit and Loss A/c	..	..	..			30,000		
Reduction of 120,000 Shares of £1 each, 10s. paid, to 5s. paid, as per Resolution dated.....								

In the Share Ledger, each page will be impressed with a rubber stamp referring to the resolution and its effect. The Share Certificates will be treated in a similar manner, or else called in and new ones issued in their place.

### (2) Extinguishing Losses and Writing Down Assets.

**Example.**—On next page is the Balance Sheet of the Gamma Company, Limited, as at 30th June, 19..

## BALANCE SHEET, AS AT 30TH JUNE, 19..

<i>Capital and Liabilities.</i>		<i>Property and Assets.</i>	
Nominal Capital—		Freehold Buildings ..	10,000
100,000 Ord. Shares		Machinery and Plant ..	30,230
of £1 each £100,000		Patents .. ..	75,000
100,000 Pref.		Stock .. ..	6,500
Shares of		Sundry Debtors ..	2,300
£1 each 100,000		Preliminary Expenses ..	6,700
		Cash in hand ..	56
		P. & L. A/c (Dr. balance)..	26,730
	<u>£200,000</u>		
Issued Capital—			
85,000 Ord. Shares of £1			
each, fully paid ..	85,000		
55,000 Pref. Shares of £1			
each, fully paid ..	55,000		
Bank Overdraft ..	1,500		
Sundry Creditors ..	16,016		
	<u>157,516</u>		<u>157,516</u>

Resolutions were passed, (I) That the £1 Preference and Ordinary Shares be reduced to the same number of fully-paid shares of 12s. 6d. and 10s. respectively; (II) That the sum thus rendered available be applied as follows: (1) The debit balances of Profit and Loss and Preliminary Expenses to be extinguished; (2) The Machinery and Plant to be reduced to £25,000; (3) £1,500 to be written off the Stock; (4) The balance to be utilised to reduce the Patents Account. Make the necessary Journal entries giving effect to the above, show also the Ledger Accounts affected, and draw up the new Balance Sheet.

## JOURNAL.

Dr.

Cr.

19..					
June 30	Ordinary Share Capital A/c ..	42,500			
	To Capital Reduction A/c ..			42,500	
	85,000 shares of £1 each, fully paid, reduced to 10s. each, as per Resolution.....				
30	Preference Share Capital A/c ..	20,625			
	To Capital Reduction A/c ..			20,625	
	55,000 Shares of £1 each, fully paid, reduced to 12s. 6d. each, as per Resolution.....				
30	Capital Reduction A/c .. ..	63,125			
	To Profit and Loss A/c ..			26,730	
	„ Preliminary Expenses ..			6,700	
	„ Machinery and Plant ..			5,230	
	„ Stock .. ..			1,500	
	„ Patents .. ..			22,965	
	Amounts written off, as per Resolution dated.....				

## LEDGER.

<i>Dr.</i>		ORDINARY SHARE CAPITAL.				<i>Cr.</i>	
	To Capital Reduction A/c ..	42,500			By Balance.. ..	85,000	
	„ Balance c/d ..	42,500					
		85,000				85,000	
					By Balance b/d ..	42,500	

<i>Dr.</i>		PREFERENCE SHARE CAPITAL.				<i>Cr.</i>	
	To Capital Reduction A/c ..	20,625			By Balance.. ..	55,000	
	„ Balance c/d ..	34,375					
		55,000				55,000	
					By Balance b/d ..	34,375	

<i>Dr.</i>		MACHINERY AND PLANT.				<i>Cr.</i>	
	To Balance ..	30,230			By Capital Reduction A/c ..	5,230	
					„ Balance c/d ..	25,000	
		30,230				30,230	
	To Balance b/d ..	25,000					

<i>Dr.</i>		PATENTS.				<i>Cr.</i>	
	To Balance ..	75,000			By Capital Reduction A/c ..	22,965	
					„ Balance c/d ..	52,035	
		75,000				75,000	
	To Balance b/d ..	52,035					

<i>Dr.</i>		STOCK.				<i>Cr.</i>	
	To Balance ..	6,500			By Capital Reduction A/c ..	1,500	
					„ Balance c/d ..	5,000	
		6,500				6,500	
	To Balance b/d ..	5,000					

<i>Dr.</i>		PRELIMINARY EXPENSES.				<i>Cr.</i>	
	To Balance ..	6,700			By Capital Reduction A/c ..	6,700	

Dr.

## PROFIT AND LOSS ACCOUNT.

Cr.

To Balance ..	26,730		By Capital Reduction A/c ..	26,730
---------------	--------	--	-----------------------------	--------

Dr.

## CAPITAL REDUCTION ACCOUNT.

Cr.

To Profit and Loss	26,730		By Ord. Share Capital ..	42,500
„ Preliminary Expenses ..	6,700		„ Pref. Share Capital ..	20,625
„ Machinery & Plant ..	5,230			
„ Stock ..	1,500			
„ Patents ..	22,965			
	63,125			63,125

BALANCE SHEET OF THE GAMMA COMPANY,  
LIMITED AND REDUCED.

<i>Capital and Liabilities.</i>			<i>Property and Assets.</i>		
Nominal Capital—			Freehold Buildings ..	10,000	
100,000 Ord. Shares of £1 each	£100,000		Machinery and Plant ..	25,000	
100,000 Pref. Shares of £1 each	£100,000		Patents ..	52,035	
	£200,000		Sundry Debtors ..	2,300	
Issued Capital—			Stock ..	5,000	
85,000 Ord. Shares of £1, 10s. paid ..	42,500		Cash in hand ..	56	
55,000 Pref. Shares of £1, 12s. 6d. paid ..	34,375				
Bank Overdraft ..	1,500				
Sundry Creditors ..	16,016				
	94,391			94,391	

**Return of Accumulated Profits in Reduction of Paid-up Share Capital.**—By Section 40 of the Companies (Consolidation) Act, 1908, when a Company has accumulated a sum of undivided profits, which with the sanction of the shareholders may be distributed among the shareholders in the form of dividend or bonus, it may, by special resolution, return the same or any part thereof, to the shareholders in reduction of the paid-up capital of the company, the unpaid capital being thereby increased by a similar amount. Any shareholders, however, may request the company to retain the





## BALANCE SHEET.

<i>Capital and Liabilities.</i>		<i>Property and Assets.</i>	
Nominal Capital—		Land and Buildings ..	
100,000 Shares of		Plant and Machinery ..	30,500 2 6
£1 each	£100,000	Stock ..	23,501 15 6
		Sundry Debtors ..	4,887 5 3
		Cash in hand ..	3,651 8 7
		Cash at Bank ..	36 15 4
			8,073 9 8
Issued Capital—			
60,000 Shares of £1 each,			
15s. per share paid ..	45,000		
Capital Reserve A/c ..	15,000		
Reserve Fund A/c ..	5,000		
Sundry Creditors ..	2,500 15 8		
Bills Payable ..	753 18 6		
Profit and Loss A/c—Cr.			
balance ..	2,396 2 8		
	70,650 16 10		
			70,650 16 10

**RE-EXCHANGE.**—The loss resulting from the dishonour of a bill in a country different from that in which it was drawn or indorsed. The re-exchange is ascertained by proof of the sum for which a bill at sight must be drawn in order to realise, at the place of dishonour, the amount of the dishonoured bill and the expenses consequent upon dishonour. The latter comprise the expenses of protest, postage, commission, brokerage, and the cost of the stamp when a re-draft is necessary.

REFER TO DRAWER.—(See CHEQUE.)

REFEREE IN CASE OF NEED.—(See BILL OF EXCHANGE.)

**REGISTERED BONDS.**—Bonds registered in the books of a Company as a protection against loss.

REGISTERED CAPITAL.—(See COMPANY.)

REGISTERED OFFICE.—(See COMPANY.)

**REGISTERED STOCK.**—Stock registered in the books of banks or companies. It differs from Inscribed Stock in two respects: (1) Certificates are issued for it; (2) All transfers must be made by deed.

REGISTER OF DEBENTURE HOLDERS.—(See DEBENTURES.)

REGISTER OF DIRECTORS AND MANAGERS.—(See COMPANY.)

REGISTER OF MEMBERS.—(See SHARE LEDGER.)

REGISTER OF MORTGAGES AND CHARGES.—(See MORTGAGE.)

REGISTER OF SHAREHOLDERS.—(See SHARE LEDGER.)

REGISTER OF TRANSFERS.—(See TRANSFER.)

REGISTRATION OF A COMPANY.—(See COMPANY.)

REGULATION OF RAILWAYS ACT.—(See DOUBLE ACCOUNT SYSTEM.)

**RE-INSURANCE.**—(See **INSURANCE.**)

**RELEASE OF DEBTOR.**—(See **DISCHARGE.**)

**RELEASE OF TRUSTEE.**—(See **WINDING UP.**)

**REMAINDER.**—(See **REVERSION.**)

**REMAINDERMAN.**—The person entitled to the Real Estate after the death of the life-tenant. The term is also used in reference to personal estate, and the Remainderman is often called the Reversioner.

**REMITTANCE.**—Cash, Cash Articles, Bills, Cheques, Drafts, etc., sent by one person to another.

**REMITTANCES IN TRANSIT.**—(See **BRANCH ACCOUNTS.**)

**REMOVAL EXPENSES.**—Expenses incurred in removing a business from one place to another. They are not allowed as a deduction for the purposes of Income Tax.

**REMUNERATIVE WAGES.**—(See **MANUFACTURING WAGES.**)

**RENEWALS FUND.**—(See **REPAIRS AND RENEWALS.**)

**RENEWING BILLS.**—(See **BILL OF EXCHANGE.**)

**RENT.**—A money payment in return for the use of lands or  
**Certain Rent.**—(See **ROYALTY.**) [tenements.]

**Chief Rent.**—Same as **QUIT RENT.**

**Dead Rent.**—(See **ROYALTY.**)

**Fixed Rent.**—(See **ROYALTY.**)

**Ground Rent.**—(See under **GROUND.**)

**Head Rent.**—(See **ROYALTY.**)

**Minimum Rent.**—(See **ROYALTY.**)

**Peppercorn Rent.**—A nominal rent.

**Quit Rent.**—(See under **QUIT.**)

**Rack Rent.**—(See under **RACK.**)

**Royalty Rent.**—(See **ROYALTY.**)

**Sleeping Rent.**—(See **ROYALTY.**)

**Surface Rent.**—(See **ROYALTY.**)

**RENTAL.**—The total of the rents received from property.

**RENTES.**—The French equivalent of the English Consols.

**RENT OF PREMISES SUBLET ; RENT RECEIVED.**—

When any part of the premises is sublet, or when rent is received from any property, this money is not posted to the credit of the Rent Account, as it would have the effect of reducing it and thus convey a false impression. Separate accounts are opened for rents receivable and rents payable respectively, in order to show the actual gain and the actual loss.

**RENT ROLL.**—An account or schedule, or register of rents, or income arising from landed property.

**REPAIRS, REPAIRS AND RENEWALS, REPAIRS AND REPLACEMENTS.**—The cost of repairs, whether to buildings, premises or plant and machinery must be charged to a Repairs Account and *not* added to the objects or articles repaired, as they do not increase the value of them, but only make them efficient for their purpose.

**Part Cost of Repairs Recovered from Landlord.**—In some cases part of the cost of repairs may be recovered from the landlord by deduction from the rent. A Journal entry will then be necessary in order to adjust the Rent Account. The entries in the books will be as follows—

Dr.		CASH BOOK.				Cr.		
				By Repairs (say) .. ..	26	15	0	
				" Rent (£70 less half cost of repairs) .. ..	56	12	6	
		JOURNAL.				Dr.		Cr.
	Rent A/c .. .. .	13	7	6				
	To Repairs A/c .. .. .					13	7	6
	Half cost of repairs recovered from landlord.							

**Repairs Carried Out by Own Workmen.**—In some cases the necessary repairs are executed by the firm's own workmen. An engineering firm may repair its own plant and machinery ; a building firm may repair its own premises, and so on. The men's time spent on the repairs must be ascertained, and a Journal entry made debiting Repairs Account, and crediting Wages Account. If the materials used have been taken from stock a Journal entry must be made to adjust the books, thus—

		JOURNAL.				Dr.		Cr.
	Repairs .. .. .	120	15	6				
	To Wages .. .. .					34	2	4
	„ Materials used for Repairs ..					86	13	2
	Men's time and materials from stock in repairing Plant and Machinery.							

The Materials used for Repairs Account would be closed at balancing time by transfer to the credit side of Trading Account, and would be entered underneath the Sales. The materials used for repairs should *not* be treated as a sale and

entered in the Sales Account, neither should the amount be deducted from the Purchases Account as is sometimes done ; but a separate account should be opened for it as shown on the previous page.

**Repairs and Income Tax.**—It should be noted that repairs are allowed as a deduction. The amount allowed, however, is not the amount appearing in the Profit and Loss Account, but the *average* of the last three years.

**REPAIRS AND RENEWALS FUND.**—(See DOUBLE ACCOUNT SYSTEM and MAINTENANCE RESERVE.)

**REPAIRS EQUALISATION RESERVE.**—The necessary repairs each year may vary largely as regards cost. One year the amount may be small, the next year nothing, and the following year very large. In order to avoid Revenue being charged each year with unequal sums, a fixed amount is debited annually to Profit and Loss and credited to a Repairs Equalisation Reserve. The Repairs are then debited to the Reserve instead of to Revenue, and the balance of the Reserve carried to the Balance Sheet at each balancing time.

**REPAYMENT OF DEBENTURES.**—(See REDEMPTION OF DEBENTURES.)

**REPAYMENT OF TAX.**—(See INCOME TAX.)

**REPLACEMENTS.**—(See REPAIRS AND REPLACEMENTS.)

**RESERVE.**—A Reserve is a charge made against profits before arriving at the actual net profit, in order to make provision for an expected loss or liability, such as Bad Debts Reserve, Reserve for Discount on Debtors, Reserve for Audit Fee. In some cases, however, it is an addition to the profits as Reserve for Discount on Creditors, Reserve for accruing income.

**RESERVE ACCOUNT.**—This is a term used by some eminent accountants to denote a Reserve Fund which is not separately invested outside the business. Other leading accountants, however, do not agree with this, contending that the mere place of the Fund does not alter its character. So long as it is composed of actual profits that have been reserved instead of divided, it is a Reserve Fund whether it is represented by an outside investment of cash or not. (See RESERVE FUND.)

**RESERVE FOR BAD DEBTS.**—(See BAD DEBTS RESERVE.)

**RESERVE FOR DISCOUNTS.**—(See DISCOUNT RESERVE.)

**RESERVE FUND.**—This is a term applied to the profits that have been put by and allowed to accumulate in order to



increase the financial stability of the Company. It may be invested in the business itself, in which case it is represented by an undivided portion of the general assets ; or it may be separately invested outside the business, by taking an equivalent amount out of Cash and buying Consols or other securities with it.

**Should a Reserve Fund be Separately Invested ?**—The object of investing a Reserve Fund outside the business is that the Fund can be made immediately available whenever the money is required, simply by realising the investments. Whether it should be so invested or not depends, however, entirely on circumstances. If the business has plenty of spare cash, then nothing could be urged against such a proceeding. Such a course, however, is not commendable when a business needs all the cash it possesses. It would obviously be foolish finance for a company to lock up its available cash in outside securities yielding  $2\frac{1}{2}$  or 3 per cent., and then borrow money at 4 or 5 per cent., to carry on its business.

**Difference between a Reserve and a Reserve Fund.**—A Reserve is merely a *charge against* profits ; a Reserve Fund represents *actual* profits, which have been reserved instead of being distributed.

**Difference between a Reserve Fund and a Sinking Fund.**—A Reserve Fund is made for no definite purpose but merely for *contingencies* ; a Sinking Fund is made for some *specific* purpose, such as the replacement of an asset or the repayment of debentures.

**RESERVE LIABILITY.**—(See COMPANY.)

**RESIDUAL VALUE.**—Same as Break-up Value. (See DEPRECIATION.)

**RESIDUARY ACCOUNT.**—An account drawn up on the official form to ascertain the value of an estate after payment of debts, testamentary expenses, legacies, and prior claims, in order to be able to assess the residuary beneficiaries for legacy duty. Of the Real Estate only such part will be included in the account as is directed by the will to be sold ; the other must be entered on a separate form entitled "Succession Duty Account."

**Example.**—Date of Death, 31st Dec., 19.. The Estate consisted of the following Assets and Liabilities—

£3,000  $2\frac{1}{2}$  % Consols @ 78 cum div.

£15,000 Blank Railway 4 % Debenture Stock @ 110 cum div.

Interest payable quarterly, received to date of death.



Freehold Property valued @ £3,000.

Mortgage on above Freehold £1,000 @ 5 % p.a. Interest payable half-yearly ; paid to date of death.

Leasehold Property £2,000 Rent at £120 per annum payable quarterly ; received to 29th Sept last. Ground Rent at £24 per annum, payable half-yearly, Midsummer and Christmas ; paid to 25th Dec. Assessed for Income Tax at £120 p.a.

Household Furniture and Effects, £350.

Debts due at Death, £2,025.

Cash in House, £30 ; Cash at Bank (Current Account), £220.

Cash at Bank (Deposit Account), £3,000. Interest at 4 % p.a. ; received to date of death.

Life Policy and Bonuses, £2,050.

The estate was to be disposed of as follows—

Legacies free of duty to—

S. Stevens (stranger in blood), £200 ;

R. Roberts (stranger in blood), collection of Old China, £500 ;

Executor (no relation), £500.

Freehold Property devised to his brother The Residue was divisible two-thirds to Widow and one-third to Sister.

S. Stevens predeceased the testator, who, it was found, had disposed of the Old China after making the will.

Estate Duty was paid and probate granted on 25th March, 19.. The Funeral Expenses were £55, and the Executorship Expenses (all chargeable to the Corpus) amounted to £135.

The Debenture Stock was sold on the 31st March and Consols on the 5th April, both at probate prices but ex div. The Life Policy and Bonuses were duly received. The Leasehold Property was sold as directed by the will and realised £2,000 ; the Furniture and Effects fetched £350, both on the 24th June. The Interest on Cash on Deposit amounted to £70.

Make up the Residuary Account as on 31 July, showing the amount on which legacy duty is payable. Show also the Succession Duty Account.

Example without Official Form.—

#### RESIDUARY ACCOUNT.

£3,000 2½ % Consols at 78 cum div.						2,340		
Dividend on above to date of death								
from 6th Oct. to 31st Dec. (¾ of								
£18 15s.).. ..	17	14	7					
Less tax at 1s. 2d. 1 ..	1	0	8			16	13	11
£15,000 Blank Railway 4 %								
Debenture Stock at 110 cum.								
div. .. ..						16,500		
Cash in House .. ..						30		
Cash at Bank on Current A/c ..						220		
Cash at Bank on Deposit A/c ..						3,000		
Policy of Insurance and Bonuses						2,050		
Carried forward ..						24,156	13	11

<sup>1</sup> Income Tax is reckoned at 1s. 2d. in the £ throughout this example.

RESIDUARY ACCOUNT—*cont.*

Brought forward .. ..				24,156	13	11
Household Furniture and Effects				350		
Leasehold Property .. ..				2,000		
Rent of Leasehold due prior to death but not received, 1 Quarter to 25th Dec. .. ..	30					
Less tax @ 1s. 2d. on £120 from 6th April to 25th Dec. ( $\frac{2}{3}\frac{8}{8}$ of £7) .. .. .	5	1	3	24	18	9
Apportionment of Rent of Leasehold to date of death, from 26th Dec.—31st Dec. ( $\frac{5}{8}$ of £30) ..	2					
Less tax @ 1s. 2d. on £120 from 26th Dec. to 31st Dec. ( $\frac{5}{8}\frac{6}{8}$ of £7) .. .. .		2	4			
	1	17	8			
Deduct Ground Rent from 26th Dec.—31st s. d. Dec. ( $\frac{5}{8}$ of £12) .. 7 11 Less tax at 1s. 2d. .. 5						
		7	6	1	10	2
Total Property .. ..				26,533	2	10
Payments out of Cash Capital						
<sup>1</sup> Estate Duty @ 6 % on £24,436 8s. 11d. .. .. .	1,466	3	9			
Funeral Expenses .. ..	55					
Executorship Expenses .. ..	135					
Debts due at Death .. ..	2,025					
Pecuniary Legacies free of duty— Executor £500 (Duty @ 10 % = £50) .. .. .	550			4,231	3	9
Total .. .. .				22,301	19	1
Income from Property since Death						
Rent of Leasehold, 1st Jan.—25th Mar. .. ..	28					
Less tax from 1st Jan.—5th April ( $\frac{2}{3}\frac{5}{8}$ of £7) .. ..	1	16	5			
	26	3	7			
Ditto to date of sale, 24th June	30			56	3	7
Dividend on Consols, 1st Jan.—5th Jan. ( $\frac{5}{8}$ of £18 15s.) .. .. £1 0 5 Less tax @ 1s. 2d. .. 1 2		19	3			
Carried forward .. ..		19	3	22,358	2	8

<sup>1</sup> Certain changes in the Estate Duty rates were made by the Finance Act, 1919.

RESIDUARY ACCOUNT—*cont.*

Brought forward .. ..	19	3	22,358	2	8
Ditto to date of Sale, to 5th April .. £18 15 0					
Less tax @ 1s. 2d. 1 1 10	17	13	2		
Dividend on Blank Rly., 4 % Deb. Stock to date of Sale, 31st Mar. .. .. £150 0 0					
Less tax @ 1s. 2d. 8 15 0	141	5	0	159	17 5
Interest on Cash on Deposit ( $\frac{7}{12}$ of £120) .. ..				70	
				22,588	0 1
<b>Payments out of Income</b>					
Interest on Estate Duty from 1st Jan. to 25th Mar. (84 days) @ 3 % .. ..	10	2	5		
Ground Rent from 1st Jan.-24th June £11 12 1					
Less tax @ 1s. 2d. 13 7	10	18	6		
Tax @ 1s. 2d. on Bank Interest (£4 1s. 8d.) and Ground Rent	4	15	3	25	16 2
Legacy Duty payable on ..			£	22,562	3 11

Note 1.—Estate Duty is payable on—

Total Property .. ..	£26,533	2	10
Less Profit on Sale of Consols, etc., (capital apportionment of quarterly dividend), which is chargeable with Legacy Duty but not with Estate Duty, as the Stock was valued cum. div. at date of Death .. ..		16	13 11
	£26,516	8	11
Less Funeral Expenses .. .. £55			
„ Debts due at Death .. .. £2,025			
	2,080	0	0
	£24,436	8	11

Adding £2,000 Net Realty to this makes the total £26,436 8s. 11d. thus fixing the rate of Estate Duty at 6 per cent.

Note 2.—The Legacy to S. Stevens has lapsed; and the Legacy to R. Roberts has been adeemed.

Note 3.—The widow is chargeable with 1 % Legacy Duty on

FORM No. 6—1.

## INLAND REVENUE.

## SUCCESSION DUTY.

Description of property, including situation, tenure, quantity, tenants' names, and nature of tenancy, and distinguishing between arable, meadow, pasture, orchards, gardens, woods, moors, commons, wastes, pleasure grounds, building land, etc.	Rental, if let, or gross (not rateable) value for the poor rate, if unlet and not assessed to the property tax.			Gross property tax assessment (not the reduced assessment for collection of Income Tax under the Finance Act, 1894, s. 35)			Nature of deductions from gross annual value.			Amount of annual deductions			Net annual value.			No. of years' purchase as estimated.			Estimated gross principal value.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.			
Freehold House	--	--	--	270						Repairs $\frac{1}{2}$			45			225			13½		3,000

The Estate Duty in respect of the property, if payable thereout, and the expenses, if any, properly incurred, of raising and paying the same, may be deducted here.

Nature of deduction from gross principal value, and by whom debt or incumbrance created.	Short material particulars of security, with date of and names of parties to any deed, and name of any testator, and date of probate of his will.	Names and addresses of persons to or in whom the debt or incumbrance is now due or vested.	Amount of debt or incumbrance.			Net principal value for Succession Duty.		
			£	s.	d.	£	s.	d.
Loan	Mortgage Deed	A. Lender Less, Estate Duty	1,000			2,000		
			@ 6 %			120		
			Total			1,880		

£15,041 9s. 3d. (two-thirds of Residue), namely, £150 8s. 3d. The sister is chargeable with 5 % Legacy Duty on £7,520 14s. 8d. (one-third of Residue), namely, £376 0s. 9d.

**Note 4.**—Realty Duty must be charged against the Realty, when personalty and realty are left to different persons. By Locke King's Act, the devisee takes the real estate subject to any debt or encumbrance. The brother is chargeable with 5 % Succession Duty on £1,880 namely, £94.

**RESIDUARY DEVISEE.**—The person who is entitled to the remainder of the real property after payment of any debts and legacies charged thereon.

**RESIDUARY LEGATEE.**—The person who is entitled to the residue of the personal estate after the payment of debts, expenses, and legacies.

**RESIDUE.**—The balance of an estate after payment of debts, testamentary and other expenses, and legacies. A testator seldom knows the exact amount of the property that will be available at his decease. Any surplus of the personalty after payment of debts, testamentary and executorship expenses, and legacies is therefore generally left to a Residuary Legatee. If no such person is named in the will, the residue goes to the next-of-kin. Legacy duty is payable upon residue, the rate varying according to the degree of relationship between the residuary legatee and the testator. Succession duty is likewise payable by the residuary devisee. The expression "free of legacy duty" has no legal meaning with reference to residue; since, after distribution of residue, no general fund exists for the payment of such duty.

**RESOLUTION.**—(See COMPANY.)

**RESPONDENTIA.**—A separate hypothecation of the *cargo* of a ship as security for the repayment of money borrowed for the necessary cost of forwarding the ship and its cargo to their destination. The repayment of the money is dependent upon the safe arrival of the ship in port. **Respondentia Bond** is the bond given for the repayment of the money. It is signed by the master, and becomes payable within a limited time of the ship's safe arrival in port. (See BOTTOMRY.)

**REST.**—A term applied to the balance of profits put by, *i.e.*, the Reserve Account or Fund, in a Bank. The term is also used in partnership accounts to denote the balance of profit that is left or remains for division among the partners. In Hire Purchase Accounts it denotes the balance of principal unpaid from time to time.

**RESTRICTIVE INDORSEMENT.**—(See BILLOF EXCHANGE.)

**RETAIL.**—The sale of goods in *small* quantities, as opposed to wholesale.

**RETAIL BRANCHES.**—(See BRANCH ACCOUNTS.)

**RETAINER, RIGHT OF.**—(See MARSHALLING OF ASSETS.)

**RETENTION MONEY.**—(See CONTRACTS.)

**RETIRING OF BILLS.**—(See BILL OF EXCHANGE.)

**RETURN FOR ASSESSMENT.**—(See INCOME TAX.)

**RETURN OF ALLOTMENTS.**—(See COMPANY.)

**RETURNS.**—Sales of a trader.

**RETURNS.**—Statements rendered periodically by a Branch to the Head Office. (See BRANCH ACCOUNTS.)

**RETURNS.**—Goods returned or sent back by the purchaser to the seller, because of some fault, defect, or error in connection therewith.

**RETURNS AND ALLOWANCES.**—(See ALLOWANCES.)

**RETURNS BOOKS.**—(See PURCHASE RETURNS and SALES RETURNS.)

**RETURNS INWARD.**—(See SALES RETURNS.)

**RETURNS OUTWARD.**—(See PURCHASE RETURNS.)

**REVALUATION OF ASSETS.**—(See APPRECIATION, DEPRECIATION, and PARTNERSHIP ACCOUNTS.)

**REVENUE.**—The income derived by a state or country from its duties and taxes. In a commercial sense it denotes income from earnings, profits, or any other source. (See CAPITAL AND REVENUE.)

**REVENUE ACCOUNT.**—Another name for Profit and Loss Account, as applied to non-trading concerns such as railway and shipping companies, gas and water and electric light companies, etc., which do not buy and sell, but have a large capital for the purpose of earning income.

**REVENUE EXPENDITURE.**—(See CAPITAL AND REVENUE.)

**REVENUE RECEIPTS.**—(See CAPITAL AND REVENUE.)

**REVERSION.**—A right to property which will fall into the possession of some person after the expiration of a grant of the same for a limited period to another person, or on the occurrence of some particular event. The grantor usually has the right to the reversion. When the reversion is granted to a third person it is called the **Remainder**, and the third person is designated the **Remainderman**.

**REVERSIONER.**—The person entitled to lands or tenements after a particular estate granted out of them has ceased. The term is also used for Remainderman.



**ROLLING STOCK.**—The stock of engines, carriages, wagons, trucks, cars, etc., of a railway or tramway company.

**ROYALTIES PAID IN ADVANCE.**—(See **ROYALTY** [MINERAL.] )

**ROYALTIES SUSPENSE ACCOUNT.**—(See **ROYALTY** [MINERAL.] )

**ROYALTY.**—(1) A payment made to a patentee for the right to use his patent. (2) An allowance by a publisher to an author for the right of publishing his book. (3) Dues paid to the owner of land for the privilege of extracting coal, ore, etc., from a mine. In the books of account the treatment of the first two cases is fairly simple; the royalties are an expense to the party paying them, and a gain to the party receiving them. In the first case, however, the royalty is a productive expense, and should therefore appear in the Manufacturing or Trading Account. The third case, which is that of a mineral royalty, is more complicated, and is dealt with separately.

**ROYALTY (MINERAL).**—A charge of so much per ton on every ton of ore or mineral raised from a colliery, mine, quarry, pit, etc. Generally speaking, however, the amount payable is either a Royalty or a Minimum Rent, whichever is the greater.

**Minimum Rent.**—Inasmuch as the Royalty is based on the number of tons of mineral gained, it follows that, if in any year no minerals are raised, no royalties would therefore be payable. In order to guard against this lack of income owing to a small or no output, the lessor generally stipulates for a **minimum rent**, *i.e.*, an annual rent which must be paid whether covered by royalties or not. The Minimum rent, however, usually merges into a Royalty or maximum rent of so much per ton on the quantity of mineral raised; so that, in times of a very large output, the lessor may enjoy an increased income. Other terms commonly used for Minimum Rent are **head rent**, **fixed rent**, **certain rent**, **dead rent**, **sleeping rent**, **annual rent**, etc.

**Short Workings.**—When the amount of Minimum Rent is greater than the Royalty on the output, the balance is called the **Overpaid Royalties**, or **Royalties Paid in Advance**, and the deficiency in tonnage is called the **Short Workings** or **Shorts**. The lease generally gives power to recoup short workings out of future royalties in excess of the minimum rent; hence the use of the terms **Redeemable Dead Rent**, **Royalties Suspense**

**Account**, in order to denote such amounts. The right to **recoup** sometimes extends over the whole period of the lease, while in other cases it is restricted to a certain number of years, three to five.

**Footage, Acreage, Tentail.**—In some cases the Royalty Rent is a fixed price per cubic foot of coal extracted, called **Footage**. In other cases it is a fixed price per acre of the coal field worked, called **Acreage**. The word **Tentail** is merely another term for Acreage Rent or Royalty Rent.

**Surface Rent.**—Some leases of mineral regions contain a clause stipulating for the payment of a surface or ground rent in addition to the minimum or royalty rent.

**Amount of Rent to be Charged to Trading Account.**—Where there is a right to recoup Short Workings, and there is a reasonable prospect of so doing, the amount chargeable to Trading (or Working) Account is the *Royalty* on the actual output. If there is no power of recoupment, or no prospect of doing so, even when such power exists, the amount chargeable to Trading Account is the *Minimum Rent*.

**Treatment of Short Workings in the Books.**—Short Workings are treated as a temporary asset in the books of the lessee ; that is, until the period of recoupment has expired. If by this time they have not been redeemed, any balance at the debit of Redeemable Dead Rent (or Overpaid Royalties or Short Workings) Account will be irrecoverable, and must therefore be transferred to Profit and Loss as a definitely realised or sustained loss. In doubtful cases Short Workings are generally reserved for in full.

**Deduction of Income Tax.**—The sums payable to the lessor or landlord for Royalties, Minimum Rent, and Surface or Ground Rent are subject to deduction of income tax, and have been so treated in the examples given.

**Different Methods of Treating Royalties and Minimum Rent in the Books of Account.**—There are various methods of dealing with Royalties and Minimum Rent from the point of view of the accounts—

**First Method—**

(a) When the Royalties are less than the Minimum Rent—

- (1) Debit Royalties Account with the Royalty on the actual output ;
- (2) Credit Landlord's Account with the Minimum Rent ;
- (3) Debit the difference, *i.e.*, the Short Workings, to a Redeemable Dead Rent Account.

(b) When the Royalties exceed the Minimum Rent :

- (1) Debit Royalties Account with the Royalty on the actual output ;
- (2) Credit Landlord's Account with the Minimum Rent ;
- (3) Credit Redeemable Dead Rent Account with the balance. If the Royalties are more than sufficient to redeem the Short Workings, the balance must be credited to the Landlord in addition to the Minimum Rent. Where there are no Short Workings to redeem, the whole of the Royalties, however great, must be credited to the Landlord's Account.

**Second Method—**

(a) When the Royalties are less than the Minimum Rent —

- (1) Debit Dead Rent Account and credit Landlord's Account with the Minimum Rent ;
- (2) Debit Royalties Account and credit Dead Rent Account with Royalty on actual output ;
- (3) Transfer balance of Dead Rent Account to debit of Short Workings Account.

(b) When the Royalties exceed the Minimum Rent—

- (1) Debit Royalties Account (dispensing with Dead Rent Account altogether) and credit Landlord's Account with Royalty on actual output.
- (2) Debit Landlord's Account and credit Short Workings Account with any Short Workings recouped.

**Third Method—**

- (1) Debit Royalties Account and credit Landlord's Account with the minimum rent ;
- (2) Transfer to Trading Account the amount of Royalties on the actual output ;
- (3) Bring down the difference, *i.e.*, the Short Workings as a debit balance, to figure on the Balance Sheet as an asset.

The first two methods are much more preferable than the third ; the latter is only applicable so long as the Royalties are insufficient to redeem the whole of the Short Workings.

**Example 1.**—A Colliery Company becomes the lessee of a mineral area, for a term of fifty years, at a Surface Rent of £50 per annum payable half-yearly, with a Minimum Rent of £650 per annum merging into a Royalty of 6d. per ton. The right of recouping Short Workings is limited to the end of each period of three years' duration. The number of tons

raised for the first period was 10,000 tons, 20,000 tons, and 40,000 tons respectively. Make the necessary Journal entries and post to Ledger Accounts, showing how you would treat the Royalties, Redeemable Dead Rent, and Landlord's Account each year.

JOURNAL.		Dr.	Cr.
Year.			
1	Royalties .. .. .	250	
	Redeemable Dead Rent .. ..	400	
	To Landlord .. .. .		650
	6d. per ton on 10,000 tons raised.		
2	Royalties .. .. .	500	
	Redeemable Dead Rent .. ..	150	
	To Landlord.. .. .		650
	6d. per ton on 20,000 tons raised.		
3	Royalties .. .. .	1,000	
	To Landlord .. .. .		650
	„ Redeemable Dead Rent .. ..		350
	6d. per ton on 40,000 tons raised.		

## LEDGER.

Dr.		ROYALTIES.				Cr.	
Year.					Year.		
1	To Landlord ..	250			1	By Trading A/c ..	250
2	To Landlord ..	500			2	By Trading A/c ..	500
3	To Landlord ..	1,000			3	By Trading A/c ..	1,000

Dr.		REDEEMABLE DEAD RENT.		Cr.		
Year.				Year.		
1	To Landlord .. ..	400		1	By Balance c/d .. ..	400
2	To Balance b/d .. ..	400		2	By Balance c/d .. ..	550
	„ Landlord .. ..	150				550
		550				
3	To Balance b/d .. ..	550		3	By Royalties (amount redeemed) .. ..	350
					„ Profit and Loss (amount unredeemed) .. ..	200
		550				550

Note.—Other names for the above account are Overpaid Royalties, Royalties Paid in Advance, Royalties Suspense, Short Workings.

<i>Dr.</i>		LANDLORD.				<i>Cr.</i>	
Year.					Year.		
1	To Income Tax A/c (tax @ 1s. 2d. on £650) .. ..	37	18	4	1	By Royalties .. ..	250
	" Cash .. ..	612	1	8		" Red. Dead Rent ..	400
		650					650
2	To Income Tax A/c..	37	18	4	2	By Royalties.. ..	500
	" Cash .. ..	612	1	8		" Red. Dead Rent..	150
		650					650
3	To Income Tax A/c..	37	18	4	3	By Royalties .. ..	650
	" Cash .. ..	612	1	8			650
		650					

<i>Dr.</i>		SURFACE RENT.				<i>Cr.</i>	
Year.					Year.		
1	To Cash .. ..	23	10	10	1	By Trading A/c ..	50
	" " .. ..	23	10	10			
	" Income Tax A/c..	2	18	4			
		50					50
2	To Cash .. ..	23	10	10	2	By Trading A/c ..	50
	" " .. ..	23	10	10			
	" Income Tax A/c..	2	18	4			
		50					50
3	To Cash .. ..	23	10	10	3	By Trading A/c ..	50
	" " .. ..	23	10	10			
	" Income Tax A/c..	2	18	4			
		50					50

**Example 2.**—A Chalk Pit is worked under a forty years lease at a Royalty of 8d. per ton with a Dead Rent of £750 per annum. The lease gives the power to recoup Short Workings out of future royalties in excess of the dead rent. The annual output was as follows—

- 1st year, 12,000 tons;
- 2nd year, 15,000 tons;
- 3rd year, 21,000 tons;
- 4th year, 30,000 tons;
- 5th year, 36,000 tons.

Make the necessary Journal entries, and show the Ledger accounts.

JOURNAL.					Dr.	Cr.
Year.						
1	Dead Rent .. .. .			750		
	To Landlord .. .. .					750
	for minimum rent.					
	Royalties .. .. .			400		
	To Dead Rent .. .. .					400
	8d. per ton on 12,000 tons raised.					
	Short Workings .. .. .			350		
	To Dead Rent .. .. .					350
	transfer of balance.					
2	Dead Rent .. .. .			750		
	To Landlord .. .. .					750
	for minimum rent.					
	Royalties .. .. .			500		
	To Dead Rent .. .. .					500
	8d. per ton on 15,000 tons raised.					
	Short Workings .. .. .			250		
	To Dead Rent .. .. .					250
	transfer of balance.					
3	Dead Rent.. .. .			750		
	To Landlord .. .. .					750
	for minimum rent.					
	Royalties .. .. .			700		
	To Dead Rent .. .. .					700
	8d. per ton on 21,000 tons raised.					
	Short Workings .. .. .			50		
	To Dead Rent .. .. .					50
	transfer of balance.					
4	Royalties .. .. .			1000		
	To Landlord .. .. .					1000
	8d. per ton on 30,000 tons raised.					
	Landlord .. .. .			250		
	To Short Workings .. .. .					250
	amount recouped out of excess royalties.					
5	Royalties .. .. .			1200		
	To Landlord .. .. .					1200
	8d. per ton on 36,000 tons raised.					
	Landlord .. .. .			400		
	To Short Workings .. .. .					400
	amount recouped out of excess royalties.					



## LEDGER.

<i>Dr.</i>		DEAD RENT.				<i>Cr.</i>	
Year.					Year.		
1	To Landlord .. ..	750			1	By Royalties .. ..	400
						„ Short Workings ..	350
		750					750
2	To Landlord .. ..	750			2	By Royalties .. ..	500
						„ Short Workings ..	250
		750					750
3	To Landlord .. ..	750			3	By Royalties .. ..	700
						„ Short Workings ..	50
		750					750

<i>Dr.</i>		ROYALTIES.				<i>Cr.</i>	
Year.					Year.		
1	To Dead Rent .. ..	400			1	By Trading A/c .. ..	400
2	To Dead Rent .. ..	500			2	By Trading A/c .. ..	500
3	To Dead Rent .. ..	700			3	By Trading A/c .. ..	700
4	To Landlord .. ..	1,000			4	By Trading A/c .. ..	1,000
5	To Landlord .. ..	1,200			5	By Trading A/c .. ..	1,200

<i>Dr.</i>		SHORT WORKINGS.				<i>Cr.</i>	
Year.					Year.		
1	To Dead Rent .. ..	350			2	By Balance c/d .. ..	600
2	To Dead Rent .. ..	250					600
		600					
3	To Balance b/d .. ..	600			3	By Balance c/d .. ..	650
	„ Dead Rent .. ..	50					650
		650					
4	To Balance b/d .. ..	650			4	By Landlord (amount recouped) .. ..	250
		650			„	„ Balance c/d .. ..	400
							650
5	To Balance b/d .. ..	400			5	By Landlord (amount recouped) .. ..	400

Dr.		LANDLORD.				Cr.	
Year.					Year.		
1	To Income Tax A/c (tax @ 1s. 2d. on £750) .. ..	43 15			1	By Dead Rent ..	750
	„ Cash .. ..	706 5					
		750					750
2	To Income Tax A/c ..	43 15			2	By Dead Rent ..	750
	„ Cash .. ..	706 5					
		750					750
3	To Income Tax A/c ..	43 15			3	By Dead Rent ..	750
	„ Cash .. ..	706 5					
		750					750
4	To Short Workings ..	250			4	By Royalties ..	1,000
	„ Income Tax A/c ..	43 15					
	„ Cash .. ..	706 5					
		1,000					1,000
5	To Short Workings ..	400			5	By Royalties ..	1,200
	„ Income Tax A/c (tax at 1s. 2d. on £800) .. ..	46 13 4					
	„ Cash .. ..	753 6 8					
		1,200					1,200

**Example 3.**—A Colliery Company become lessees of a mine at a Minimum Rent of £1,600 per annum merging into a Royalty of 6d. per ton, with power to recoup Short Workings out of future excess royalties. The excess paid in respect of the first year was £1,500; of the second year, £1,000; and of the third year, £250. In the fourth year the actual royalties amounted to £2,200; in the fifth year to £2,500; in the sixth year to £2,750; and in the seventh year, owing to a lock-out, to only £1,400. Write up the “Royalties Account” for the seven years, showing the amount to be charged to Trading Account and to be carried forward each year respectively. (See next page.)

**ROYALTY RENT.**—(See ROYALTY [MINERAL].)

**RULE OF AVERAGES.**—(See INCOME TAX.)

**RUPEE.**—A part of the British India coinage, the standard silver coin worth about 2s. in English money. In the India Money Table 3 pies = 1 pice, 4 pice or 12 pies = 1 anna, 16 annas = 1 rupee. Rx = 10 rupees. A lac = 100,000 rupees. A crore = 100 lacs of rupees.

Dr.				ROYALTIES.				Cr.			
Year.				Year.							
1	To Landlord ..	..	1,600	1	By Trading A/c ..	..	100				
					„ Balance c/d ..	..	1,500				
			1,600					1,600			
2	To Balance b/d ..	..	1,500	2	By Trading A/c ..	..	600				
	„ Landlord ..	..	1,600		„ Balance c/d ..	..	2,500				
			3,100					3,100			
3	To Balance b/d ..	..	2,500	3	By Trading A/c ..	..	1,350				
	„ Landlord ..	..	1,600		„ Balance c/d ..	..	2,750				
			4,100					4,100			
4	To Balance b/d ..	..	2,750	4	By Trading A/c ..	..	2,200				
	„ Landlord ..	..	1,600		„ Balance c/d ..	..	2,150				
			4,350					4,350			
5	To Balance b/d ..	..	2,150	5	By Trading A/c ..	..	2,500				
	„ Landlord ..	..	1,600		„ Balance c/d ..	..	1,250				
			3,750					3,750			
6	To Balance b/d ..	..	1,250	6	By Trading A/c ..	..	2,750				
	„ Landlord ..	..	1,600		„ Balance c/d ..	..	100				
			2,850					2,850			
7	To Balance b/d ..	..	100	7	By Trading A/c ..	..	1,400				
	„ Landlord ..	..	1,600		„ Balance c/d ..	..	300				
			1,700					1,700			
	To Balance b/d ..	..	300								

**SALARIES.**—These are the different sums paid weekly or monthly to the various employees of a firm or company in return for services rendered. A Salaries Account is generally opened for this item of expenditure, and is closed at balancing time by transfer to Profit and Loss. Partners' Salaries should be kept in a separate account, as they have to be specially dealt with in Income Tax Returns; the information concerning them should therefore be readily available, and not mixed up with anything else. In businesses where departments obtain, the Salaries Account will often be subdivided departmentally. Other divisions are sometimes met with such as Office Salaries, Management Salaries, Travelers' Salaries, etc. This is done merely in pursuance of the special needs of the business itself or of the particular

requirements of its accounting department. For the difference between Salaries and Wages see under the latter heading.

**Partners' Salaries.**—These are explained under Partnership Accounts, to which the student should refer.

**SALARIES AND WAGES.**—When this item is met with in examination work, it is generally understood to denote non-productive or unremunerative wages, which may therefore be transferred with the salaries to Profit and Loss Account. Factory Salaries and Wages would be charged to Manufacturing or Trading Account.

**SALE OF ASSETS, GAIN OR LOSS THEREON.**—Whenever any of the business assets are disposed of, the cash received should be debited in the Cash Book and posted to the credit of the particular asset concerned. If the asset has realised exactly its book value, no further entry will be required; this, however, will seldom be the case, a gain or loss on the sale being much more probable. The latter will necessitate an adjusting entry. For example, suppose some furniture, valued in the books at £40, is sold (*a*) for £30; (*b*) for £50; the Journal entry would be—

(a) Loss on Sale of Furniture .. ..	Dr. £10 0 0				
To Furniture A/c .. ..	Cr. £10 0 0				
(b) Furniture A/c .. ..	Dr. £10 0 0				
To Profit on Sale of Furniture ..	Cr. £10 0 0				

and the profit or loss would in each case be transferred to the Profit and Loss Account. The Ledger accounts would appear as follows—

(a) Dr.		FURNITURE.				Cr.	
To Balance .. ..	40					By Cash .. ..	30
						„ Loss on Sale of Furniture .. ..	10
	40						40

Dr.		LOSS ON SALE OF FURNITURE.				Cr.	
To Furniture .. ..	10					By Profit and Loss ..	10

(b) *Dr.*

## FURNITURE.

*Cr.*

To Balance .. ..	40		By Cash .. ..	50	
„ Profit on Sale of Furniture .. ..	10				
	50			50	

*Dr.*

## PROFIT ON SALE OF FURNITURE.

*Cr.*

To Profit and Loss ..	10		By Furniture A/c ..	10	
-----------------------	----	--	---------------------	----	--

**SALE OF GOODS ACT, 1893.—By Section 1 (1)—**

A contract of sale of goods is a contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a money consideration, called the price.

**By Section 4 (1)—**

A contract for the sale of any goods of the value of £10 or upwards shall not be enforceable by action unless the buyer shall accept part of the goods so sold, and actually receive the same, or give something in earnest to bind the contract, or in part payment; or unless some note or memorandum in writing of the contract be made and signed by the party to be charged or his agent in that behalf.

Owing to the above section, firms generally insist on all orders being in writing, and positively refuse to recognise verbal orders. Telephonic and telegraphic orders have to be subsequently confirmed. Travellers generally carry carbon-copy order books. The order is made out in triplicate, and the customer's signature obtained; one copy is then handed to the customer, one is retained by the traveller, and the other is forwarded to the firm to execute the order.

**SALE OR RETURN, GOODS ON.**—When goods are sent out “on sale or return,” they should be entered in a separate “On Sale or Return Day Book,” and posted to a separate “On Sale or Return Ledger.” This is the simplest and clearest way when such transactions are numerous. The customer or agent should be debited with the goods sent him and credited with the goods he returns, the balance, representing what he has kept, being transferred to the regular Sales Day Book, and posted from thence to the regular Sales Ledger.

It often happens, however, that such goods when sent out are entered in the Day Book in the same way as ordinary sales, and at full list prices; whereas the agent to whom they

have been forwarded is, perhaps, entitled to a discount of 10 to 20 per cent. when remitting for same. If such is the position of affairs at balancing time, adjustments will be necessary as follows—

As regards the goods actually *sold*, the Sales Account should be debited, and the agent's account credited, with the particular trade discount (if any)—that is, if this has not already been done.

With respect to the goods *unsold*, Sales Account might be debited, and a Reserve Account credited, with the 10 or 20 per cent. profit which has been anticipated. This way, however, has the effect of showing a much larger turnover than is really the case. A better way, therefore, is to pass a Journal entry—

Sales A/c.	Dr.
To Sales Suspense A/c.	Cr.

for the full amount at which the goods have been charged. On the Balance Sheet the Sundry Debtors should preferably be shown in two amounts—

Sundry Debtors for Goods sold.	
"       "       "       "       "       on Sale or Return.	

The latter amount would be off-set or counterbalanced on the Liabilities side by the amount of the Sales Suspense Account.

The goods themselves should be valued at cost price, and included in the stock; or they may be shown separately on the Balance Sheet as "Stock in Customers' (or Agents') hands."

**SALES ACCOUNT.**—An account to which all credit and cash sales are posted periodically. It is closed by transfer to Trading Account. For the sake of convenience or additional information, the Sales Account is often subdivided departmentally, as Sales Account, A Dept.; Sales Account, B Dept.; or Sales Account, Drapery; Sales Account, Outfitting; and so on. Each of these subsidiary accounts is likewise closed at balancing time by transfer to Trading Account. Instead of having separate Sales accounts for each department, they may be kept in one tabular Sales Account, as is sometimes done. (See DEPARTMENTAL ACCOUNTS.)

**Cash Sales.**—These are entered weekly into the General Cash Book, and posted to the Sales Account. Where the



items are numerous and the amounts sufficiently large, the receipts are entered daily and extended into a separate Cash Sales column, the total of the latter being posted monthly to the Sales Account in the General Ledger. In some cases the Cash Sales, in addition to being entered in the Cash Book, are also entered in the Sales Book, like credit sales. A Cash Sales Account is then opened in the Sales Ledger, as if it were a personal account. It is debited from the Sales Book, and credited from the Cash Book; thus the account always balances. The disadvantage of this method is that it unnecessarily duplicates the work. It does sometimes happen, however, that a regular customer will occasionally pay on the spot for the goods he orders, so that he may take advantage of the cash discount offered. Such a sale should undoubtedly be entered in the Sales Book and be posted to the customer's Ledger Account, in order that the latter may be a *complete* record of the transactions with him. But when a customer has no ledger account, such a course cannot be recommended.

**Credit Sales.**—These are recorded daily in a special Sales Book or Journal.

**SALES BOOK.**—A book in which are entered, in order of date, all sales *on credit*, *i.e.*, for payment at a future date. The Book is also called the **Day Book**, **Sales Day Book**, **Sold Day Book**, **Sales Journal**. The ruling of the book varies with the nature and requirements of the business; it may contain only the ordinary money columns, or it may be in tabular form. Sometimes the total of the Cash Sales is entered periodically in the Sales Book. This however, is quite unnecessary.

**Example.**—From the following particulars write up the Sales Book in (1) Ordinary Form, (2) Tabular Form, and post to Ledger Accounts.

Jan. 5.	Sold to A. Brown— 10 qrs. Wheat @ 38/6; 10 sacks Flour @ 21/3.
11	Sold to S. Smith— 10 sacks Flour @ 24/3; 10 sacks Barley @ 15/6.
18	Sold to Jones Bros.— 5 qrs. Wheat @ 40/6; 12 sacks Barley @ 15/3; 10 sacks Oats @ 12/6.
23	F. Flower purchased— 12 qrs. Wheat @ 40/-; 5 qrs. Wheat @ 41/6; both subject to Trade Discount of 20 %.
30	Sold to Prince & Sons— 10 sacks Oats @ 12/3; 2 qrs. Wheat @ 40/6.

## (1) Ordinary Form—

## SALES BOOK.

(Page 74.)

Date.	Name.	Led. Fol.	Details.			Total.		
Jan. 5	A. Brown— 10 qrs. Wheat .. .. 38/6 10 Sacks Flour .. .. 21/3	207	19	5		29	17	6
			10	12	6			
„ 11	S. Smith— 10 Sacks Flour .. .. 24/3 10 Sacks Barley .. .. 15/6	208	12	2	6			
			7	15		19	17	6
„ 18	Jones Bros.— 5 qrs. Wheat .. .. 40/6 12 Sacks Barley .. .. 15/3 10 Sacks Oats .. .. 12/6	209	10	2	6			
			9	3		25	10	6
			6	5				
„ 23	F. Flower— 12 qrs. Wheat .. .. 40/- 5 qrs. Wheat .. .. 41/6  Less Trade Discount, 20 % .. ..	210	24					
			10	7	6			
			34	7	6			
			6	17	6	27	10	
„ 30	Prince & Sons— 10 Sacks Oats .. .. 12/3 2 qrs. Wheat .. .. 40/6	211	6	2	6			
			4	1		10	3	6
	Total .. .. G.L.	272			£	112	19	

If necessary the goods may be analysed and summarised thus—

## SUMMARY.

Wheat .. .. .	£60	18	6
Flour .. .. .	22	15	0
Barley .. .. .	16	18	0
Oats .. .. .	12	7	6
	£112 19 0		

## (2) Tabular Form—

## SALES BOOK.

(PAGE 74.)

Date.	Particulars.	Led. Fol.	Details.			Total.	Wheat.	Flour.		Barley.		Oats.	
Jan. 5	A. Brown— 10 qrs. Wheat 38/6 10 sacks Flour 21/3	207	19 10	5 12	6 6	29 17 6	19 5	10 12 6					
11	S. Smith— 10 sacks Flour 24/3 10 sacks Barley 15/6	208	12 7	2 15	6	19 17 6		12 2 6		7 15			
18	Jones Bros.— 5 qrs. Wheat 40/6 12 sacks Barley 15/3 10 sacks Oats 12/6	209	10 9 6	2 3 5	6	25 10 6	10 2 6			9 3	6 5		
23	F. Flower— 12 qrs. Wheat 40/- 5 qrs. Wheat 41/6		24 10	7 6	6								
	Less Trade Discount, 20 %	210	34 6	7 17	6 6	27 10	27 10						
30	Prince & Sons— 10 sacks Oats 12/3 2 qrs. Wheat 40/6	211	6 4	2 1	6	10 3 6	4 1					6 2 6	
	Total				£	112 19	60 18 6	22 15		16 18		12 7 6	

[SAL]

DICTIONARY OF BOOK-KEEPING

[SAL]

(G.L. 273) (G.L. 274) (G.L. 275) (G.L. 276)

## SALES LEDGER.

<i>Dr.</i>		A. BROWN.										(207) <i>Cr.</i>	
Jan. 5	To Goods	..	74	29	17	6							

<i>Dr.</i>		S. SMITH.										(208) <i>Cr.</i>	
Jan. 11	To Goods	..	74	19	17	6							

<i>Dr.</i>		JONES BROS.										(209) <i>Cr.</i>	
Jan. 18	To Goods	..	74	25	10	6							

<i>Dr.</i>		F. FLOWER.										(210) <i>Cr.</i>	
Jan. 23	To Goods	..	74	27	10	0							

<i>Dr.</i>		PRINCE AND SONS.										(211) <i>Cr.</i>	
Jan. 30	To Goods	..	74	10	3	6							

## GENERAL LEDGER.

<i>Dr.</i>		SALES ACCOUNT.										(272) <i>Cr.</i>	
							Jan. 31	By Sundry Drs.	74	112	19		

Or (from Tabular Book)—

<i>Dr.</i>		SALES ACCOUNT—WHEAT.										(273) <i>Cr.</i>	
							Jan. 31	By Sundry Drs.	74	60	18	6	

<i>Dr.</i>		SALES ACCOUNT—FLOUR.										(274) <i>Cr.</i>	
							Jan. 31	By Sundry Drs.	74	22	15		

<i>Dr.</i>		SALES ACCOUNT—BARLEY.										(275) <i>Cr.</i>	
							Jan. 31	By Sundry Drs.	74	16	18		

Dr.		SALES ACCOUNT—OATS.										(276) Cr.	
								Jan. 31	By Sundry Drs.	74	12	7	6

**SALES JOURNAL.**—Where press-copy and carbon-copy Invoice Books are in use, only the date, name and total of each transaction are copied into the Sales Book (or Journal, as it is then frequently termed), reference being made to the number of the Invoice in case the details should be required. The Sales Journal is often used for the purpose of analysis, in order to obtain the detailed information required in the business, or to facilitate the use of self-balancing ledgers.

Example 1—

SALES JOURNAL.

Date.	No. of Invoice.	Name.	Led. Fol.	Total.	Cycles.		Parts and Accessories.		Repairs.	

Example 2—

SALES JOURNAL.

Date.	Press Copy Book folio.	Name.	Led. Fol.	Total.	Sales Ledgers.		
					Town.	Country.	Foreign.

**SALES LEDGER.**—(See LEDGER.)

**SALES LEDGER ADJUSTMENT ACCOUNT.**—(See ADJUSTMENT ACCOUNT and SELF-BALANCING LEDGERS.)

**SALES ON COMMISSION.**—(See COMMISSION and CONSIGNMENT INWARD.)

**SALES RETURNS.**—These are goods actually returned by customers, including also the allowances made to them to prevent other goods being returned, as per Credit Note Book. (See ALLOWANCES.)

**SALES RETURNS BOOK.**—The subsidiary book in which the Sales Returns and Allowances are recorded for posting to the Ledger.

**Example.**—From the following particulars write up the Sales Returns and Allowances Book in (1) Ordinary Form, (2) Tabular Form, and post to Ledger Accounts.

Jan. 7	Smith & Co. returned— 1 qr. Wheat @ 38/6 ; 1 sack Barley @ 15/- ; Credit Note No. 56.
23.	Brown Bros. returned— 1 sack Oats @ 12/6 ; 1 sack Flour @ 21/3. C/N No. 57.
28.	Peters & Sons— Made them allowance on Barley invoiced on 21st inst., not up to sample, 10 sacks @ 6d. C/N No. 58.

(1) Ordinary Form—

SALES RETURNS BOOK.

(PAGE 68.)

Date.	C.N.	Particulars.	Led. Fol.	Details.	Total.
Jan. 7	56	Smith & Co.— 1 qr. Wheat .. 38/6 1 sack Barley .. 15/-	371	1 18 6 15 0	2 13 6
„ 23	57	Brown Bros.— 1 sack Oats .. 12/6 1 sack Flour .. 21/3	372	12 6 1 1 3	1 13 9
„ 28	58	Peters & Sons— Allowance on Barley in- voiced on 21st inst., 10 sacks @ 6d. .. ..	373	5	5
		Total .. .. G.L.	131	£	4 12 3



## (2) Tabular Form—

## SALES RETURNS BOOK.

(PAGE 68.)

Date.	C.N.	Particulars.	Led. Fol.	Details.	Total.	Wheat.	Flour.	Barley.	Oats.
Jan. 7	56	Smith & Co.— 1 qr. Wheat 38/6 1 sack Barley 15/-	371	1 18 6 15	2 13 6	1 18 6		15	
23	57	Brown Bros.— 1 sack Oats 12/6 1 sack Flour 21/3	372	12 6 1 1 3	1 13 9		1 1 3		12 6
28	58	Peters & Sons— Allowance on Barley invoiced on 21st inst., 10 sacks @ 6d.	373	5	5			5	
		Total		£	4 12 3	1 18 6	1 1 3	1	12 6

(G.L. 132) (G.L. 133) (G.L. 134) (G.L. 135)

With the first form the goods may, if necessary, be analysed and summarised thus—

## SUMMARY.

Wheat .. .. .	£1	18	6
Flour .. .. .	1	1	3
Barley .. .. .	1	0	0
Oats .. .. .	12	6	
	<hr/>		
	£4	12	3
	<hr/>		

## SALES LEDGER.

Dr.

SMITH &amp; CO.

(371)  
Cr.

					Jan. 7	By Returns ..	68		2	13	6
--	--	--	--	--	--------	---------------	----	--	---	----	---

Dr.

BROWN BROS.

(372)  
Cr.

					Jan. 23	By Returns ..	68		1	13	9
--	--	--	--	--	---------	---------------	----	--	---	----	---

Dr.

PETER &amp; SONS.

(373)  
Cr.

					Jan. 28	By Allowance ..	68				5
--	--	--	--	--	---------	-----------------	----	--	--	--	---

## GENERAL LEDGER.

Dr.

SALES RETURNS.

(131)  
Cr.

Jan. 31	To Sundry Drs. (or Returns Book)	68		4	12	3					
---------	----------------------------------	----	--	---	----	---	--	--	--	--	--

Or (from Tabular Book)—

Dr.

SALES RETURNS—WHEAT.

(132)  
Cr.

Jan. 31	To Sundry Drs...	68		1	18	6					
---------	------------------	----	--	---	----	---	--	--	--	--	--

Dr.

SALES RETURNS—FLOUR.

(133)  
Cr.

Jan. 31	To Sundry Drs...	68		1	1	3					
---------	------------------	----	--	---	---	---	--	--	--	--	--

Dr.

SALES RETURNS—BARLEY.

(134)  
Cr.

Jan. 31	To Sundry Drs.	68		1							
---------	----------------	----	--	---	--	--	--	--	--	--	--

Dr.

SALES RETURNS—OATS.

(135)  
Cr.

Jan. 31	To Sundry Drs...	68		12	6				
---------	------------------	----	--	----	---	--	--	--	--

**SALVAGE.**—(1) Goods saved from loss by fire or at sea.

(2) The compensation paid for so saving them.

**SAMPLE BOOKS.**—(See CATALOGUES.)

**SANS RECOURS.**—(See BILL OF EXCHANGE.)

**SCHEDULES A, B, C, D, E.**—(See INCOME TAX.)

**SCRIP.**—An abbreviation of the word “subscription,” denoting a provisional certificate of shares in a joint-stock company or Government loan. The scrip certificate is issued when the allotment money is paid; it is exchanged in due course for the share certificate or bond. Scrip and share certificates are terms often used synonymously.

**SEAL (COMMON).**—(See COMPANY.)

**SEAL REGISTER.**—A record giving brief particulars of all documents to which the Company’s seal has been attached.

**SECRET RESERVES.**—A secret or hidden reserve is a surplus, the existence of which is not shown on the Balance Sheet.

**How Secret Reserves are Made.**—Secret reserves are formed in various ways—

(1) By charging Capital expenditure to Revenue, as for instance, Additions to Buildings. On the Balance Sheet the buildings would appear at less than their actual value.

(2) By excessive depreciation of assets, such as writing down Premises, Investments, etc., below their proper value.

(3) By creating unnecessary or excessive Reserves for Bad Debts, Discounts, or for fictitious Liabilities.

(4) By Undervaluation or Omission of Assets. Stock may be taken below cost. Assets which have greatly appreciated may be maintained at cost. The Bank of England omits the value of its Premises altogether. Some valuable companies omit their Goodwill.

**Advantages of Secret Reserves.**—The advantages claimed for them are—

(1) They promote financial stability. Extraordinary losses can be met out of such “undisclosed surpluses” instead of out of Revenue, thus preventing the dividend being reduced and public confidence shaken. Banks and insurance companies often have recourse to such methods to prevent

any serious depreciation of their Investments being made public.

(2) A normal rate of dividend may be maintained. Not only for the above reason, but also because they enable unduly fluctuating profits to be manipulated and steady progressive results to be shown.

(3) They advance the interests of the undertaking By means of secret or "inner" reserves huge profits can be concealed from business rivals, whereas the publication of such would stimulate competition and injure the company.

**Disadvantages of Secret Reserves.**—The objections raised against them are as follows—

(1) The shareholders have not a full knowledge of the company's affairs, inasmuch as the published accounts are inaccurate and misleading. The Trading and Profit and Loss Accounts do not show the exact profits. The Balance Sheet is not a correct presentation of the state of affairs, inasmuch as the liabilities may be overstated and the assets undervalued.

(2) Secret Reserves, which can be utilised to meet exceptional losses through depreciation of investments, etc., can also be used to conceal losses arising through bad management or reckless speculation.

(3) Concealment of facts or manipulation of figures is bad in principle, and is a proceeding which, while it may sometimes serve the company's interest, may also be, and frequently is used by unscrupulous directors to the company's detriment. Suspicions may be aroused which will weaken or destroy confidence in the management much more quickly than a policy of straightforward dealing, even in adverse circumstances.

**SECTIONAL BALANCING.**—(See SELF-BALANCING LEDGERS.)

**SECURED CREDITORS.**—(See STATEMENT OF AFFAIRS.)

**SECURITIES.**—Written or printed documents giving the holder a right to any property not in his possession. They comprise stocks, shares, bonds, dock warrants, insurance policies, bills of lading, mortgages. The term is often used to denote investments generally. Securities may be (1) to bearer ; (2) registered ; (3) inscribed.

**SELF-BALANCING LEDGERS.**—A self-balancing Ledger is one whose balances when extracted form a complete Trial Balance.

**Object of Self-Balancing Ledgers.**—The object of making Ledgers self-balancing is to be able to localise errors, and thus prevent waste of time in checking books which may be already accurate. In an ordinary set of books kept on double-entry principles, if the total debit of the Trial Balance does not equal the total credit, we merely know that there is a mistake in the books *somewhere*. But in practical business life this is not sufficient; we must know *where* the mistake is, *in what ledger*; otherwise we may waste a lot of time in checking and re-checking. For instance, we might call over each of the Sales Ledgers, and, after all, the mistake might be in one of the Bought Ledgers. To obviate this, and to locate the error as far as possible to the particular ledger concerned, we, instead of taking a Trial Balance off the whole of the books at once, take a separate Trial Balance off each Ledger, thus proving the books separately or in sections—hence the term **sectional balancing**. Thus, first the Sales Ledger, or each of its subdivisions A-K, L-R, etc., is proved, then the Bought Ledger, or each of its subdivisions, and finally the General Ledger. If the General Ledger Trial Balance does not agree, the mistake is then confined to this one ledger, as the other ledgers are now proved.

**How Ledgers are made Self-balancing.**—Where there are several ledgers in use, it is obvious that they will not balance of themselves, as the balances they contain will be one-sided. For instance, the Bought Ledger will be all credit balances, the Sales Ledger all debit balances, and so on. Ledgers have therefore to be made self-balancing by means of an ingenious device called an Adjustment Account. This, and the principle of proof underlying it, are fully explained under the latter heading; *pro forma* adjustment accounts for each ledger are also shown there, and the student should carefully consider same.

**Journal Entries for Adjustment Accounts.**—The Journal entries for constructing the Adjustment Accounts are also given under the heading Adjustment Account.

**Total Checking Accounts.—Contra Adjustment Accounts.**—Self-balancing Ledgers are merely an extension or adaptation of the former system of total checking accounts. A Total Debtors Account and a Total Creditors Account—now dignified with the titles of Sales Ledger Adjustment Account and Bought Ledger Adjustment Account—were kept in the General Ledger and used by the chief clerk or accountant







## JOURNAL (with specimen entries.)

Date.	Particulars.	Led. Fol.	Dr.	Cr.	Bought Ledger.		Sales Ledger.	
					Dr.	Cr.	Dr.	Cr.
Mar. 28	Interest .. .. . To P. Smith .. .. Interest on renewed bill.	.. .. ..	4 2 6	4 2 6		4 2 6		
30	F. Brown .. .. . To Bill Receivable .. Bill No. 263 dishonoured.	.. .. ..	76 15 3	76 15 3			76 15 3	
31	R. Rufus .. .. . To R. Rufus .. .. Transfer of contra A/c from Bought Leger to Sales Ledger.	.. .. .. ..	26 17 8	26 17 8	26 17 8			26 17 8
31	Bad Debts .. .. . To J. Jenkins .. .. Transfer of balance now irrecoverable.	.. .. ..	16 4 10	16 4 10				16 4 10
	etc.							

**Note 1.**—It is only necessary to analyse the Bought Ledger and Sales Ledger items. The transfers and other Journal items that have been posted in detail to these two Ledgers must also be posted in total to their respective Adjustment Accounts.

**Note 2.**—Where there are several Bought Ledgers and Sales Ledgers a tabular Journal would be impracticable, as the necessary columns would render the book cumbersome. The Journal items would be analysed at the end of the month and the totals posted to their proper Adjustment Accounts.

to check the Sales Ledger and Bought Ledger balances respectively. It was quite an afterthought, and a very modern one, to copy this total account into the pages of the Ledger concerned, and by transposing the debits and credits make the Ledger self-balancing. This method, of course, provides "contra" adjustment accounts and facilitates their construction by means of Journal entries, and is also a rigid adherence to the principle that every debit must have a corresponding credit, and *vice versa*. Many accountants, however, condemn the practice of duplicate or contra adjustment accounts, maintaining that it merely puts the Ledger clerks in possession of the total checking figures and renders possible the manipulation of balances, thus destroying the effectiveness of the check.

**Rulings of Subsidiary Books.**—Where there are several Bought Ledgers and Sales Ledgers in use, extra columns will be required in the Purchases and Sales Books, Returns Books, Bill Books, Cash Book, etc., for the purpose of analysing the items contained therein under the respective ledgers to which they have been posted. These columns will, of course, be in addition to the departmental columns (if any). Where, however, the number of ledgers is very large, separate subsidiary books will be required for each ledger.

Examples are given on pages 677-679.

**Example.**—From the following particulars write up the subsidiary books and post to Ledger accounts. Make Ledgers self-balancing, and take out Trial Balances to prove the correctness of the work.

Jan. 1. H. Brown commenced business with the following assets and liabilities—					£	s.	d.
Cash in hand .. .. .	..	..	..	..	25	6	11
Cash at Bank .. .. .	..	..	..	..	1,567	2	7
Stock .. .. .	..	..	..	..	1,279	13	6
Bills Receivable .. .. .	..	..	..	..	652	9	4
F. Finch, <i>Dr.</i> .. .. .	..	..	..	..	421	6	6
G. Garnet & Co., <i>Dr.</i> .. .. .	..	..	..	..	375	4	2
H. Hunter, Ltd., <i>Dr.</i> .. .. .	..	..	..	..	269	18	7
Jones Bros., <i>Dr.</i> .. .. .	..	..	..	..	527	3	6
L. Lyons & Son, <i>Dr.</i> .. .. .	..	..	..	..	78	14	9
Masters, Son & Co., <i>Dr.</i> .. .. .	..	..	..	..	118	5	10
N. Nash, <i>Cr.</i> .. .. .	..	..	..	..	343	17	6
O. Orton & Co., <i>Cr.</i> .. .. .	..	..	..	..	219	8	11
P. Phillips, Ltd., <i>Cr.</i> .. .. .	..	..	..	..	198	4	3
Quill Bros., <i>Cr.</i> .. .. .	..	..	..	..	75	13	7
R. Roberts & Son, <i>Cr.</i> .. .. .	..	..	..	..	121	16	4
Singer, Son & Wells, <i>Cr.</i> .. .. .	..	..	..	..	65	9	2

		Plant and Machinery .. ..	£3,500	0	0
		Furniture and Fixtures .. ..	750	0	0
		Bills Payable .. ..	352	13	5
		His transactions for the month were—			
Jan.	2.	Bought Goods of N. Nash .. ..	122	3	4
	4.	Received Bill No. 95 at 1 month from F. Finch ..	400	5	2
		Discount allowed him .. ..	21	1	4
	5.	Sold Goods to F. Finch .. ..	96	12	9
		Paid Wages .. ..	22	15	6
	7.	Received Cash for Bill Receivable No. 93 ..	221	3	11
	9.	Bought Goods of O. Orton & Co. .. ..	78	4	6
		Received Cash from G. Garnet .. ..	356	9	0
		Discount allowed him .. ..	18	15	2
	11.	Gave O. Orton & Co. Bill No. 103 at 1 month ..	213	19	2
		And was allowed Discount .. ..	5	9	9
	12.	Paid Wages .. ..	36	4	3
		Bill No. 94 (H. Hunter, Ltd.) paid in for collection .. ..	100	0	0
		Sold Goods to G. Garnet & Co. .. ..	256	10	4
	14.	Bought Goods of R. Roberts & Son .. ..	67	16	9
		Bill No. 94 returned by Bank dishonoured ..	100	0	0
	15.	H. Hunter, Ltd., returned Goods .. ..	8	2	3
	16.	Received Cash from H. Hunter, Ltd. .. ..	361	16	4
	17.	Sold Goods to H. Hunter, Ltd. .. ..	83	19	6
	19.	Bought Goods of P. Phillips, Ltd. .. ..	107	6	8
		Paid Wages .. ..	32	13	10
		Received Cash from Jones Bros. .. ..	513	19	11
		Discount allowed him .. ..	13	3	7
	21.	Paid Quill Bros. .. ..	71	17	11
		And was allowed Discount .. ..	3	15	8
	22.	Sold Goods to Jones Bros. .. ..	155	7	5
		Received Bill No. 96 at 2 months from L. Lyons & Son .. ..	74	16	0
		Discount allowed them .. ..	3	18	9
		Returned Goods to P. Phillips, Ltd. .. ..	6	1	2
		Paid N. Nash .. ..	343	17	6
		Drew for Self .. ..	25	0	0
	23.	Bought Goods of Quill Bros. .. ..	79	15	10
		Paid Bill Payable No. 101 .. ..	221	8	5
		Paid P. Phillips, Ltd. .. ..	192	3	1
	24.	Ready-money Purchases .. ..	16	17	8
	25.	Sold Goods to L. Lyons & Son .. ..	114	6	3
		Received of Masters, Son & Co. .. ..	118	5	10
		Gave R. Roberts & Son Bill No. 104 at 1 month ..	115	14	6
		And was allowed Discount .. ..	6	1	10
	26.	Paid Singer, Son & Wells .. ..	62	3	9
		And was allowed Discount .. ..	3	5	5
		Paid Wages .. ..	34	2	8
	28.	Paid Rent .. ..	30	10	6
	29.	Bought Goods of Singer, Son & Wells .. ..	126	3	11
	30.	Ready-money Sales for month .. ..	36	19	6
	31.	Paid Sundry Expenses for month .. ..	12	15	8
		Sold Goods to Masters, Son & Co. .. ..	68	14	2
		Paid Salaries .. ..	45	15	6

JOURNAL.				Dr.		Cr.	
19..							
Jan. 1	Cash in hand .. .. .		25	6	11		
	Cash at Bank .. .. .		1,567	2	7		
	Stock.. .. .		1,279	13	6		
	Bills Receivable .. .. .		652	9	4		
	Furniture and Fixtures .. .. .		750				
	Plant and Machinery .. .. .		3,500				
	F. Finch .. .. .		421	6	6		
	G. Garnet & Co. .. .. .		375	4	2		
	H. Hunter, Ltd. .. .. .		269	18	7		
	Jones Bros. .. .. .		527	3	6		
	L. Lyons & Son .. .. .		78	14	9		
	Masters, Son & Co. .. .. .		118	5	10		
	To N. Nash .. .. .					343	17 6
	" O. Orton & Co. .. .. .					219	8 11
	" P. Phillips, Ltd. .. .. .					198	4 3
	" Quill Bros. .. .. .					75	13 7
	" R. Roberts & Son .. .. .					121	16 4
	" Singer, Son & Wells .. .. .					65	9 2
	" Bills Payable.. .. .					352	13 5
	" Capital .. .. .					8,188	2 6
		£	9,565	5	8	9,565	5 8
	For Sundry Assets and Liabilities as at this date.						

## PURCHASES BOOK.

Jan. 2	N. Nash— Goods .. .. .					122	3	4
9	O. Orton & Co.— Goods .. .. .					78	4	6
14	R. Roberts & Son— Goods .. .. .					67	16	9
19	P. Phillips, Ltd.— Goods .. .. .					107	6	8
23	Quill Bros.— Goods .. .. .					79	15	10
29	Singer, Son & Wells— Goods .. .. .					126	3	11
	Total .. .. .			£		581	11	







## CASH BOOK.

## PAYMENTS.

Cr.

Date.	Particulars.	Discount.	Office.	Bank.	Bought Ledger.	Sales Ledger.	General Ledger.
Jan. 5	By Wages .. ..			22 15 6			22 15 6
12	" Wages .. ..			36 4 3			36 4 3
14	" H. Hunter, Ltd. (dishd. bill) .. ..			100		100	
19	" Wages .. ..			32 13 10			32 13 10
21	" Quill Bros. .. ..	3 15 8		71 17 11	75 13 7		
22	" N. Nash .. ..			343 17 6	343 17 6		
"	" Drawing A/c .. ..			25			25
" 23	" Bill Payable No. 101 .. ..			221 8 5			221 8 5
"	" P. Phillips, Ltd. .. ..			192 3 1	192 3 1		
" 24	" Purchases (Ready Money)			16 17 8			16 17 8
26	" Singer, Son & Wells .. ..	3 5 5		62 3 9	65 9 2		
"	" Wages .. ..			34 2 8			34 2 8
" 28	" Rent .. ..			30 10 6			30 10 6
31	" Trade Expenses .. ..		12 15 8				12 15 8
"	" Salaries .. ..		12 11 3	45 15 6			45 15 6
"	" Balance c/d .. ..			2,040 6 6			2,052 17 9
	£	7 1 1	25 6 11	3,275 17 1	677 3 4	100	2,531 1 9

Note.—Separate Discount columns are not required for each Ledger, as the discount can be added to the Cash, and the total extended into the Ledger column, as shown above.

## BILLS PAYABLE BOOK.

Date.	No. of Bill.	To Whom Given.	Led. Fol.	Dis- count.			Amount of Bill.			Date of Bill.	Term.	Due Date.
Jan. 11 25	103 104	O. Orton & Co. R. Roberts & Son		5 6	9 1	9 10	213 115	19 14	2 6	Jan. 11 " 25	1 mo. 1 mo.	Feb. 14 " 28
			£	11	11	7	329	13	8			

## BOUGHT LEDGER.

Dr.		N. NASH.						Cr.	
Jan. 22	To Cash .. ..	343	17	6	Jan. 1	By Balance .. ..	343	17	6
					Jan. 2	By Goods .. ..	122	3	4

Dr.		O. ORTON & CO.						Cr.	
Jan. 11	To Bill Payable .. ..	213	19	2	Jan. 1	By Balance .. ..	219	8	
"	" Discount .. ..	5	9	9			219	8	11
		219	8	11	Jan. 9	By Goods .. ..	78	4	6

Dr.		P. PHILLIPS, LTD.						Cr.	
Jan. 22	To Returns .. ..	6	1	2	Jan. 1	By Balance .. ..	198	4	3
23	" Cash .. ..	192	3	1			198	4	3
		198	4	3	Jan. 19	By Goods .. ..	107	6	8

Dr.		QUILL BROS.						Cr.	
Jan. 21	To Cash .. ..	71	17	11	Jan. 1	By Balance .. ..	75	13	7
"	" Discount .. ..	3	15	8			75	13	7
		75	13	7	Jan. 23	By Goods .. ..	79	15	10

<i>Dr.</i>		R. ROBERTS & SON.				<i>Cr.</i>	
Jan. 25	To Bill Payable ..	115	14	6	Jan. 1	By Balance ..	121 16 4
"	" Discount ..	6	1	10			
		121	16	4			121 16 4
					Jan. 14	By Goods ..	67 16 9

<i>Dr.</i>		SINGER, SON & WELLS.				<i>Cr.</i>	
Jan. 26	To Cash ..	62	3	9	Jan. 1	By Balance ..	65 9 2
"	" Discount ..	3	5	5			
		65	9	2			65 9 2
					Jan. 29	By Goods ..	126 3 11

<i>Dr.</i>		GENERAL LEDGER ADJUSTMENT ACCOUNT.				<i>Cr.</i>	
Jan. 1	To Balance..	1,024	9	9	Jan. 31	By Cash & Discount	677 3 4
31	" Goods ..	581	11	0	"	" Bills Payable ..	329 13 8
					"	" Discount ..	11 11 7
					"	" Returns..	6 1 2
					"	" Balance c/d ..	581 11 1
		1,606	0	9			1,606 0 9
Jan. 31	To Balance b/d ..	581	11				

## SALES LEDGER.

<i>Dr.</i>		F. FINCH.				<i>Cr.</i>	
Jan. 1	To Balance ..	421	6	6	Jan. 4	By Bill Receivable	400 5 2
					" "	" Discount ..	21 1 4
		421	6	6			421 6 6
Jan. 5	To Goods ..	96	12	9			

<i>Dr.</i>		G. GARNET & CO.				<i>Cr.</i>	
Jan. 1	To Balance ..	375	4	2	Jan. 9	By Cash ..	356 9
					" "	" Discount ..	18 15 2
		375	4	2			375 4 2
Jan. 12	To Goods ..	256	10	4			

Dr.		H. HUNTER, LTD.										Cr.	
Jan. 1	To Balance ..	269	18	7	Jan. 15	By Returns ..	8	2	3				
14	" Cash (dishd. bill No. 94) ..	100	0	0	16	" Cash ..	361	16	4				
		369	18	7						369	18	7	
Jan. 17	To Goods ..	83	19	6									

Dr.		JONES BROS.										Cr.	
Jan. 1	To Balance..	527	3	6	Jan. 19	By Cash ..	513	19	11				
		527	3	6	"	" Discount ..	13	3	7				
Jan. 22	To Goods ..	155	7	5						527	3	6	

Dr.		L. LYONS & SON.										Cr.	
Jan. 1	To Balance ..	78	14	9	Jan. 22	By Bill Receivable ..	74	16					
		78	14	9	"	" Discount ..	3	18	9				
Jan. 25	To Goods ..	114	6	3						78	14	9	

Dr.		MASTERS, SON & CO.										Cr.	
Jan. 1	To Balance..	118	5	10	Jan. 25	By Cash ..	118	5	10				
Jan. 31	To Goods ..	68	14	2									

Dr.		GENERAL LEDGER ADJUSTMENT ACCOUNT.										Cr.	
Jan. 31	To Cash & Discount	1,382	9	10	Jan. 1	By Balance..	1,790	13	4				
"	" Bills Receivable	475	1	2	31	" Goods ..	775	10	5				
"	" Discount ..	25	0	1	"	" Cash ..	100						
"	" Returns ..	8	2	3									
"	" Balance c/d ..	775	10	5									
		2,666	3	9						2,666	3	9	
					Jan. 31	By Balance b/d ..	775	10	5				

## GENERAL LEDGER.

Dr.		STOCK.										Cr.	
Jan. 1	To Balance..	1,279	13	6									

<i>Dr.</i>		PLANT AND MACHINERY.										<i>Cr.</i>	
Jan. 1	To Balance..	..	3,500										

<i>Dr.</i>		FURNITURE AND FIXTURES.										<i>Cr.</i>	
Jan. 1	To Balance	..	750										

<i>Dr.</i>		BILLS RECEIVABLE.										<i>Cr.</i>	
Jan. 1	To Balance..	..	652	9	4	Jan. 7	By Cash	..	..	221	3	11	
31	„ Sundry Drs.	..	475	1	2	14	„ „	..	..	100			

<i>Dr.</i>		BILLS PAYABLE.										<i>Cr.</i>	
Jan. 23	To Cash	..	..	221	8	5	Jan. 1	By Balance..	..	352	13	5	
							31	„ Sundry Crs.	..	329	13	8	

<i>Dr.</i>		PURCHASES.										<i>Cr.</i>	
Jan. 24	To Cash	..	..	16	17	8							
31	„ Sundry Crs.	..	581	11									

<i>Dr.</i>		PURCHASES RETURNS.										<i>Cr.</i>	
							Jan. 31	By Sundry Crs.	..	6	1	2	

<i>Dr.</i>		SALES.										<i>Cr.</i>	
							Jan. 30	By Cash	..	..	36	19	6
							31	„ Sundry Drs.	..	775	10	5	

<i>Dr.</i>		SALES RETURNS.										<i>Cr.</i>	
Jan. 31	To Sundry Drs.	..	8	2	3								

<i>Dr.</i>		WAGES.										<i>Cr.</i>	
Jan. 5	To Cash	..	..	22	15	6							
12	„ „	..	..	36	4	3							
19	„ „	..	..	32	13	10							
26	„ „	..	..	34	2	8							



<i>Dr.</i>		SALARIES.										<i>Cr.</i>
Jan. 31	To Cash .. ..	45	15	6								

<i>Dr.</i>		RENT.										<i>Cr.</i>
Jan. 28	To Cash .. ..	30	10	6								

<i>Dr.</i>		TRADE EXPENSES.										<i>Cr.</i>
Jan. 31	To Cash .. ..	12	15	8								

<i>Dr.</i>		DISCOUNTS ALLOWED.										<i>Cr.</i>
Jan. 31	To Sundry Drs. (C.B.)	31	18	9								
"	" " " (B.B.)	25	0	1								

<i>Dr.</i>		DISCOUNTS RECEIVED.										<i>Cr.</i>
					Jan. 31	By Sundry Crs. (C.B.)						
					"	" " " (B.B.)	7	1	1			
							11	11	7			

<i>Dr.</i>		BOUGHT LEDGER ADJUSTMENT ACCOUNT.										<i>Cr.</i>
Jan. 31	To Cash & Discount	677	3	4	Jan. 1	By Balance ..	1,024	9	9			
"	" Bills Payable ..	329	13	8	31	" Goods ..	581	11				
"	" Discount ..	11	11	7								
"	" Returns ..	6	1	2								
"	" Balance c/d ..	581	11									
		1,606	0	9			1,606	0	9			
					Jan. 31	By Balance b/d ..	581	11				

<i>Dr.</i>		SALES LEDGER ADJUSTMENT ACCOUNT.										<i>Cr.</i>
Jan. 1	To Balance ..	1,790	13	4	Jan. 31	By Cash & Discount	1,382	9	10			
31	" Goods ..	775	10	5	"	" Bills Receivable	475	1	2			
"	" Cash ..	100			"	" Discount ..	25	0	1			
					"	" Returns ..	8	2	3			
					"	" Balance c/d ..	775	10	5			
		2,666	3	9			2,666	3	9			
Jan. 31	To Balance b/d ..	775	10	5								

Dr.

## CAPITAL ACCOUNT.

Cr.

					Jan. 1	By Balance..	..	8,188	2	6
--	--	--	--	--	--------	--------------	----	-------	---	---

Dr.

## DRAWING ACCOUNT.

Cr.

Jan. 22	To Cash ..	..	25							
---------	------------	----	----	--	--	--	--	--	--	--

## TRIAL BALANCES.

## BOUGHT LEDGER.

Dr.

Cr.

N. Nash .. ..	..				122	3	4
O. Orton & Co. ..	..				78	4	6
P. Phillips, Ltd. ..	..				107	6	8
Quill Bros. .. ..	..				79	15	10
R. Roberts & Son ..	..				67	16	9
Singer, Son & Wells ..	..				126	3	11
General Ledger Adjust- ment A/c .. ..	..	581	11				
	£	581	11		581	11	

## SALES LEDGER.

Dr.

Cr.

F. Finch.. ..	..	96	12	9			
G. Garnet & Co. ..	..	256	10	4			
H. Hunter, Ltd. ..	..	83	19	6			
Jones Bros. .. ..	..	155	7	5			
L. Lyons & Son ..	..	114	6	3			
Masters, Son & Co. ..	..	68	14	2			
General Ledger Adjust- ment A/c .. ..	..				775	10	5
	£	775	10	5	775	10	5

GENERAL LEDGER.					Dr.			Cr.		
Stock	..	..	..	..	1,279	13	6			
Plant and Machinery	..	..	..	..	3,500					
Furniture and Fixtures	..	..	..	..	750					
Bills Receivable	..	..	..	..	806	6	7			
Bills Payable	..	..	..	..				460	18	8
Purchases	..	..	..	..	598	8	8			
Purchases Returns	..	..	..	..				6	1	2
Sales	..	..	..	..				812	9	11
Sales Returns	..	..	..	..	8	2	3			
Wages	..	..	..	..	125	16	3			
Salaries	..	..	..	..	45	15	6			
Rent	..	..	..	..	30	10	6			
Trade Expenses	..	..	..	..	12	15	8			
Discounts Allowed	..	..	..	..	56	18	10			
Discounts Received	..	..	..	..				18	12	8
Bought Ledger Adjustment A/c <sup>1</sup>								581	11	
Sales Ledger Adjustment A/c <sup>2</sup>	..	..	..	..	775	10	5			
Capital A/c	..	..	..	..				8,188	2	6
Drawing A/c	..	..	..	..	25					
Cash..	..	..	..	..	12	11	3			
Bank	..	..	..	..	2,040	6	6			
					£	10,067	15 11	10,067	15 11	

<sup>1</sup> On the Balance Sheet this item will be called Sundry Creditors.

<sup>2</sup> On the Balance Sheet this item will show as Sundry Debtors.

**SELLING EXPENSES.**—(See COST ACCOUNTS.)

**SELLING PRICE.**—(See COST ACCOUNTS.)

**SEPARATE ESTATE CREDITORS.**—(See STATEMENT OF AFFAIRS.)

**SET-OFF.**—A defence set up (in an action) by a person upon whom some demand is made, arising in respect of mutual debts between the plaintiff and defendant. It is often regarded, but erroneously so, as the same thing as a counter-claim. A set-off is a statutory defence to an action; a counter-claim is a cross action—a distinction of importance in cases of bankruptcy and winding up.

**SETTLED ESTATE DUTY.**—(See under ESTATE DUTY.)

**SETTLING DAYS.**—Days appointed on the Stock Exchange for the settlement of bargains.

**SEVEN DAY BILLS.**—(See BANK POST BILLS.)

**SHARE.**—(See COMPANY.)

**SHARE CAPITAL.**—(See COMPANY.)

**SHARE CERTIFICATE.**—A document issued by Limited Companies to their shareholders, showing that the person named therein is the holder of so many shares in the Company and specifying the amounts paid up thereon. (See also under COMPANY.)

**Example.**—

No.....

**RETROP MANUFACTURING COMPANY, LIMITED.**  
(Incorporated under the Companies Acts, 1908 to 1917.)

**CAPITAL £200,000.**

100,000 ORDINARY SHARES OF £1 EACH.

100,000 6 % PREFERENCE SHARES OF £1 EACH.

**SHARE CERTIFICATE.**

THIS IS TO CERTIFY that \_\_\_\_\_  
of \_\_\_\_\_  
is the Registered Proprietor of \_\_\_\_\_ 6 % Preference Shares of  
£1 each, numbered \_\_\_\_\_ to \_\_\_\_\_ inclusive in the RETROP  
MANUFACTURING COMPANY, LIMITED, subject to the provisions of the  
Memorandum and Articles of Association of the Company, and that  
there has been paid in respect of each of the said Shares, the sum of  
\_\_\_\_\_  
\_\_\_\_\_

GIVEN UNDER THE COMMON SEAL of the Company this \_\_\_\_\_  
day of \_\_\_\_\_ 19 \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ } *Directors.*



\_\_\_\_\_  
*Secretary.*

No Transfer of the above Shares can be made without the production  
of this Certificate.

A Share Certificate, even though a document under seal, requires no stamp; but a "scrip" certificate entitling a person to become the proprietor of shares requires an impressed twopenny stamp. Share Certificates are often made up in book form like cheques, and perforated; so that each

## REGISTER OF MEMBERS OR SHARE LEDGER.

NAME\_\_\_*John Richard Spender*\_\_\_\_\_ADDRESS\_\_\_*157 Swaby Bridge Road,*\_\_\_\_\_  
\_\_\_\_\_*London, S.W.*\_\_\_\_\_OCCUPATION\_\_\_*Merchant*\_\_\_\_\_DATE ENTERED AS A MEMBER\_\_\_*Jan. 12th*\_\_\_\_\_

DATE CEASED TO BE A MEMBER\_\_\_\_\_

## CASH ACCOUNT.

<i>Dr.</i>					<i>Cr.</i>				
Date.	Particulars.	Folio.	Amount called up per Share.	Total Amount called up.	Date.	Particulars.	Folio.	Total Amount Paid up.	
Jan. 12	To Application A/c		2 6	18 15	Jan. 2	By Cash ..		18 15	
" 12	" Allotment A/c		2 6	18 15	" 14	" " ..		18 15	
Mar. 12	" First Call A/c		5 0	37 10	Mar. 16	" " ..		37 10	

## SHARE ACCOUNT.

Shares Acquired.					Shares Transferred.					Balance.	
Date.	Fol.	No. of Shares.	Distinctive Nos.		Date.	Fol.	No. of Shares.	Distinctive Nos.		Date.	No. of Shares.
			From.	To.				From.	To.		
Jan. 12		150	1,201	1,350	Apr. 3		50	1,201	1,250		

Certificate issued has its corresponding counterfoil on which short particulars may be entered for reference.

**SHARE LEDGER.**—(See **SHARE REGISTER.**)

**SHARE PREMIUM.**—This is a profit to the Company, and, as it forms no part of the Company's capital, a separate account is opened for it. Being a capital profit, it is not usually taken to Profit and Loss Account as available for dividend, though unless the Articles forbid such a practice, there is nothing to prevent it being so dealt with. Generally speaking, however, it is used to write down the value of fictitious assets such as Goodwill, or to write off Preliminary Expenses. In some cases it is transferred to the Reserve Fund or Account.

**SHARE REGISTER.**—The Register of Members or Share Ledger which a Limited Company is compelled, by the C.C.A., 1908, to keep. For Example with specimen entries, see page 694. (See also under **COMPANY.**)

**SHARES, KINDS OF.**—(See **COMPANY.**)

**SHARE TRANSFER.**—(See **TRANSFER.**)

**SHARE WARRANT.**—This is a document, under the seal of the Company, which entitles the holder of it to the Shares or Stock specified therein. Inasmuch as it is transferable by mere delivery, this makes it a very convenient instrument, particularly in the case of companies having foreign shareholders. It is subject to a stamp duty of 30s. per cent. on the nominal value. For specimen see page 697.

**Issue of Share Warrants to Bearer.**—By Section 37, C.C.A., 1908, a company limited by shares, if so authorised by its articles, may, with respect to any fully paid-up shares, or to stock, issue under its common seal a warrant stating that the bearer of the warrant is entitled to the shares or stock specified therein, and may provide, by coupons or otherwise, for the payment of the future dividends on the shares or stock included in the warrant, termed in the Act a "share warrant." The shares or stock may be transferred by delivery of the warrant. On the issue of a share warrant, the company must strike out of its Register of Members the name of the member then entered therein as holding the shares or stock specified in the warrant as if he had ceased to be a member, and must enter in the Register the following particulars—

(1) The fact of the issue of the warrant.

(2) A statement of the shares or stock included in the warrant, distinguishing each share by its number; and





(3) The date of the issue of the warrant.

The bearer of a share warrant is, subject to the articles of the company, entitled, on surrendering it for cancellation, to have his name entered as a member in the Register of Members. The date of such surrender must also be entered in the Register as if it were the date at which a person ceased to be a member.

No. \_\_\_\_\_

**RETROP MANUFACTURING COMPANY, LIMITED.**

Incorporated under the Companies Acts, 1908 to 1917.

CAPITAL £200,000.

100,000 ORDINARY SHARES OF £1 EACH.

100,000 6 % PREFERENCE SHARES OF £1 EACH.

Stamp.

**SHARE WARRANT.**

THIS IS TO CERTIFY that the Bearer of this Warrant is the proprietor of \_\_\_\_\_ fully paid-up 6 % Preference Shares of £1 each, numbered \_\_\_\_\_ to \_\_\_\_\_ inclusive in the RETROP MANUFACTURING COMPANY, LIMITED, subject to the provisions of the Memorandum and Articles of Association of the Company.

GIVEN UNDER THE COMMON SEAL of the Company this \_\_\_\_\_ day of \_\_\_\_\_ 19\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_) Directors

Seal

\_\_\_\_\_  
Secretary.

**SHARE WARRANT REGISTER.**—A register giving particulars of the Share Warrants which have been issued by the Company. See specimen on page 66.

**SHIP.**—The property in a British ship is, by an old law, divided into sixty-four equal parts or shares.

**SHORT BILLS.**—(See BILL OF EXCHANGE.)

**SHORT EXCHANGE.**—Drafts or cheques payable at sight or within a day or two.

**SHORT LOANS.**—Advances made for short periods at a fixed rate of interest.

**SHORT WORKINGS.**—(See ROYALTIES.)

**SHORTS.**—(See **ROYALTIES.**)

**SHRINKAGE.**—Loss of quantity or weight through goods being bought in bulk and afterwards issued in small quantities at a time.

**SHUT FOR DIVIDEND.**—An expression used when the transfer books of banks and joint-stock companies are closed to enable dividend warrants to be prepared and issued.

**SIGHT BILLS OR DRAFTS.**—(See **BILL OF EXCHANGE.**)

**SIGNATORIES TO MEMORANDUM OF ASSOCIATION.**  
—(See **COMPANY.**)

**SINGLE ACCOUNT SYSTEM.**—(See under **DOUBLE ACCOUNT SYSTEM.**)

**SINGLE COST ACCOUNTS.**—(See **COST ACCOUNTS.**)

**SINGLE ENTRY.**—A method of book-keeping under which only personal accounts are kept. The information given by the books is thus limited to the Debtors and Creditors.

Pure single entry, however, is seldom met with in actual practice, the system obtaining being frequently an incongruous mixture of no entry, single entry, and double entry. Purchases and Sales Books, Returns Books, Bill Books, etc., are often kept. A Cash Book is an absolute necessity; and whenever cash is received or paid, and such item is posted to the personal account concerned in the Ledger, there is, of course, an instance of double-entry book-keeping.

**Disadvantages of Single Entry.**—These may be set down as follows—

(1) Incompleteness of the record. Every transaction affects two accounts, which may be either personal or impersonal. Hence, if only personal accounts are kept, the record of the business transactions is necessarily incomplete.

(2) Lack of information concerning the Assets. As no real or property accounts are kept, there is a dearth of information respecting the assets or property of the business.

(3) Lack of information with respect to Gains and Losses. As nominal accounts are not kept, there is a total absence of information regarding the various gains and losses of the business. No details are therefore available for comparison of past and present periods. It is also impossible to trace the source of any decrease of profit or of any loss, with a view to checking it in future.

(4) Final Results unreliable. As there is no record of assets, some may be omitted from the Statement of Affairs, while the values placed upon the others must, in the nature

of things, be very unreliable. And any error in these vitiates, of course, the whole statement. Further, owing to the one-sided posting, even the arithmetical accuracy of the books cannot be verified, as it is quite impossible for a Trial Balance to be prepared from the books themselves.

**Profit and Loss by Single Entry.**—Under Single Entry, profit or loss is taken to be the difference between the capital at start and the capital at finish of each trading period, after allowing for additions or withdrawals of Capital, Salaries not drawn out in cash, Drawings on account of profits, and Interest on capital. Capital in each case is the excess of assets over liabilities, a Statement of Affairs being made out in order to ascertain the amount. If the final capital is greater than the original capital, the balance is gain; if the capital at finish is less than the capital at commencement, the difference is a loss. There is, of course, no proof of this.

**Example.**—Light and Darke are equal partners in a business in which the books are kept by Single Entry. The position of affairs on 1 Jan., 19.., was as follows—

#### STATEMENT OF AFFAIRS, 1ST JAN., 19...

<i>Liabilities.</i>				<i>Assets.</i>			
Bills Payable .. ..	757	3	6	Plant and Machinery ..	8,560	12	6
Sundry Creditors .. ..	2,785	14	3	Fixtures and Fittings ..	360	2	8
Capital A/cs—				Stock .. ..	3,675	15	4
Light .. ..	7,707	10	6	Sundry Debtors .. ..	5,423	12	5
Darke .. ..	7,707	10	6	Bills Receivable .. ..	576	3	7
				Cash in hand .. ..	35	1	9
				Cash at Bank .. ..	326	10	6
	18,957	18	9		18,957	18	9

On the 31st Dec., 19.., the following figures were agreed upon by the partners—

	£	s.	d.
Stock .. ..	4,125	15	7
Debtors .. ..	5,976	2	8
Creditors .. ..	2,516	3	10
Bills Receivable ..	652	8	9
Bills Payable ..	526	4	10
Cash in hand ..	47	2	5
Cash at Bank ..	473	13	9

Each partner had drawn £500. It was decided to allow 5 per cent interest on Capital, and to depreciate Plant and Fixtures by 10 per cent. Draw up the final accounts.

## STATEMENT OF PROFIT AND LOSS, 31ST DEC., 19..

Creditors .. .. .	2,516	3	10	Plant and Machinery	£8,560	12	6				
Bills Payable .. ..	526	4	10	Less Depreciation	856	1	3	7,704	11	3	
Balance (final Capital) c/d	16,261	8	2								
				Furniture and Fixtures	£360	2	8				
				Less Depreciation	36	0	3				
								324	2	5	
				Stock .. .. .				4,125	15	7	
				Debtors .. .. .				5,976	2	8	
				Bills Receivable .. ..				652	8	9	
				Cash in hand .. .. .				47	2	5	
				Cash at Bank .. .. .				473	13	9	
	19,303	16	10					19,303	16	10	
Capital, 1st Jan. .. ..	15,415	1		Balance (Capital) b/d ..				16,261	8	2	
Interest thereon to 31st Dec.—				Drawings—							
Light .. £385	7	6		Light .. .. £500							
Darke .. £385	7	6		Darke .. .. £500				1,000			
	770	15									
Balance (Net Profit)—											
Light, $\frac{1}{2}$ .. £537	16	1									
Darke, $\frac{1}{2}$ .. £537	16	1									
	1,075	12	2								
	17,261	8	2					17,261	8	2	

The above is sometimes prepared as follows—

## STATEMENT OF PROFIT AND LOSS, 31ST DEC., 19..

Sundry Liabilities as above	3,042	8	8	Sundry Assets as above ..	19,303	16	10
Capital, 1st Jan.—				Drawings—			
Light .. £7,707	10	6		Light .. .. £500			
Darke .. £7,707	10	6		Darke .. .. £500			
	15,415	1			1,000		
Balance (Profit) c/d ..	1,846	7	2				
	20,303	16	10		20,303	16	10
Interest on Capital—				Balance (Profit) b/d ..	1,846	7	2
Light .. £385	7	6					
Darke .. £385	7	6					
	770	15					
Balance (Net Profit)—							
Light .. £537	16	1					
Darke .. £537	16	1					
	1,075	12	2				
	1,846	7	2		1,846	7	2





**Conversion of Books from Single Entry to Double Entry.**—The Statement of Affairs at the commencement of the trading period must be verified and then journalised. If no such Statement exists, one must be drawn up. The Cash and Bank balances must be ascertained, also the value of Stock. Lists of Debtors and Creditors and Bills Receivable and Payable must be prepared, due allowance being made for Bad Debts and Discounts. Furniture and Fixtures, Plant and Machinery, and any other assets at this date would require to be valued. Accruing expenses, such as Rent, etc., would have to be taken into account. The difference between the Assets and Liabilities would be entered on the Statement as the initial Capital. The Statement would then be copied into the Journal, the assets being debited and the liabilities credited. The opening entries, other than the Debtors and Creditors which are already posted, could then be entered in their proper Ledgers. The next task would be to write up the double-entry for the period. Add the Purchases Book, analyse the total, and post the summaries to Purchases Account, Plant Account, Fixtures Account, Expenses Account, etc. Add the Sales Book and post the total to a Sales Account. Add the Returns Books and post the total to proper Returns Accounts. If subsidiary books have not been kept (which is very probable) the above information could only be obtained by analysing and tabulating the items on each side of the ledger accounts. Take the Cash Book and post up the impersonal accounts, Cash Purchases and Sales, Purchase and Sale of any assets, Rent, Wages, Salaries, and other expenses, and the totals of the Discount columns to Discount Accounts. Add the Bill Books and post the totals to Bills Receivable and Bills Payable Accounts respectively. Journalise to their proper impersonal accounts any one-sided entries found in the Ledgers, such as Bad Debts written off, overcharges, or allowances, dishonoured bills, interest, etc. The books would then be on a double-entry basis, and a Trial Balance could be extracted to prove the correctness of the work.

**SINKING FUND.**—A Sinking Fund is either a charge against profits to provide for a wasting asset such as Lease, Plant and Machinery, etc., or an appropriation of profits to repay some known liability such as Debentures. In each case, however, there is a corresponding amount of cash invested, in order that the Sinking Fund may be immediately available when required, namely by realising the Investments.

Examples of a Sinking Fund to replace a wasting asset will be found under DEPRECIATION. Examples of a Sinking Fund to repay a liability are given under REDEMPTION OF DEBENTURES. The difference between the two should be carefully noted. In the former case, the accumulated profits are transferred to the Asset Account in order to close it ; in the latter case the accumulated profits are transferred to a special Reserve Fund or Account.

**SINKING FUND INVESTMENTS.**—(See DEPRECIATION and REDEMPTION OF DEBENTURES.)

**SINKING FUND TABLES.**—(See DEPRECIATION.)

**SINKING FUND v. RESERVE FUND.**—(See RESERVE FUND.)

**SLEEPING RENT.**—(See ROYALTIES [MINERAL].)

**SOLD LEDGER.**—Another name for Sales Ledger.

**SOLD LEDGER ADJUSTMENT ACCOUNT.**—(See ADJUSTMENT ACCOUNT and SELF-BALANCING LEDGERS.)

**SOLVENT.**—Able to pay one's debts in full. A trader is said to be solvent by the amount of his net capital as shown on the Balance Sheet.

**SPECIAL INDORSEMENT.**—(See BILL OF EXCHANGE.)

**SPECIFIC LEGACY.**—(See LEGACY.)

**SPLITS.**—Shares converted into stock of two denominations (See DOUBLE ACCOUNT SYSTEM.)

**SPOTTING ERRORS.**—Glancing through books of account in order to find mistakes, and thus avoid the trouble of checking or calling over the work.

**STALE CHEQUE.**—(See CHEQUE.)

**STAMP DUTIES ON BILLS.**—(See BILL OF EXCHANGE.)

**STATEMENT OF ACCOUNT.**—An account rendered monthly or quarterly, giving merely the date and amount of each dispatch of goods, and, after deducting any cash payments, returns, etc., showing the total amount due at the date of the Statement.

**Example is shown on next page.**

When the parties concerned, as in the case of merchants, have contra accounts, that is, buy and sell to and from each other, the Statement is made out in Dr. and Cr. form like an Account Current, except that no interest is charged.

**STATEMENT OF AFFAIRS.**—The statement of assets and liabilities drawn up in Single Entry book-keeping. The term "Balance Sheet," strictly speaking, should only be applied to final statements prepared from books kept by double entry.

## STATEMENT.

744 Straley St.,  
London, W.C.

Mr. Henry Dodd

1st July, 19..

Dr. to

**J. BLACK & CO., LTD.**

DRAPERS AND OUTFITTERS.

June 1	To Goods	..	..				50	17	8
15	" "	..	..				61	5	
22	" "	..	..				120	10	
29	" "	..	..				75	15	9
							308	8	5
June 10	By Cash on A/c..	..	..	100					
15	" Returns	..	..	5	10	6	105	10	6
						£	202	17	11

**STATEMENT OF AFFAIRS (BANKRUPTCY).**—The statement of an insolvent debtor's assets and liabilities, prepared for submission to the official receiver and creditors. Particulars are given, in an inner column, of all secured debts and of the securities in connection with them. The assets available for the general creditors are estimated at their realisable value and placed on one side of the statement; the liabilities to be paid out of these assets are placed on the other side. The excess of the liabilities over the assets then shows the estimated deficiency.

**Difference between a Statement of Affairs and a Balance Sheet.**—There are four principal differences—

(1) On the assets side a Balance Sheet shows the whole of the assets; a Statement of Affairs shows only those "free" assets which are available for the general creditors, assets mortgaged or pledged as security for debts being shown underneath the debt.

(2) A Balance Sheet shows only the book value of the assets; a Statement of Affairs shows their realisable value as well.

(3) In a Balance Sheet the preferential creditors are included in the total of the liabilities; in a Statement of Affairs they are deducted from the assets.

(4) A Balance Sheet shows a trader's capital, profit or loss, and drawings ; these are excluded from a Statement of Affairs.

**Bankruptcy Laws and Their Object.**—Until the passing of the Bankruptcy Act, 1914, the laws which governed bankruptcy proceedings were the Bankruptcy Acts, 1883 and 1890, together with the Preferential Payments in Bankruptcy Act, 1888, and the Bankruptcy and Deeds of Arrangement Act, 1913. The 1914 Act consolidated the bankruptcy law, the object of which is to extricate a debtor who has become hopelessly involved in financial difficulties, by distributing his estate equitably among his creditors, and releasing him from all further liability in respect of his past debts.

**Courts of Bankruptcy.**—Proceedings must be taken in the County Court of the district in which the debtor has resided or carried on business for the longest period during the six months preceding the bankruptcy. The county court must be one which has had bankruptcy jurisdiction conferred upon it. If the debtor is resident in the metropolitan district, or abroad, or if his residence is unknown, then proceedings may be taken in the High Court. The Board of Trade has important powers in controlling and supervising bankruptcy proceedings.

**Persons who may be made Bankrupt.**—Any person who has the capacity to contract may be made bankrupt. An infant cannot be made bankrupt. By the Bankruptcy Act of 1914, a married woman can be made bankrupt as regards her separate estate, whether or not she is carrying on business apart from her husband. Companies registered under the Companies Acts, 1908 to 1917, cannot be made bankrupt ; they must be wound up. A deceased debtor cannot be made bankrupt, but his estate may be administered in bankruptcy.

**Acts of Bankruptcy.**—A petition cannot be presented by a creditor unless an act of bankruptcy has been committed. These are specified under ACTS OF BANKRUPTCY, to which the student should refer.

**Petition.**—Bankruptcy proceedings are commenced by the presentation of a petition for a Receiving Order to be made against the debtor. A petition may be made by the debtor himself. It may also be made by any creditor under the following conditions—

(1) The debt due to him (or to two or more creditors, if the petition is made jointly) must amount to at least £50.

(2) The debt must be an ascertained or liquidated sum payable immediately or at a future certain date.

(3) The Act of Bankruptcy relied on must have been committed within three months previous to the presentation of the petition.

(4) The debtor must be a person who is liable to be made bankrupt by the law of England.

If the debtor is the petitioner, the court will make the Order at once, unless it is merely an attempt on his part to evade a committal order. If the petition is made by a creditor, a copy must be served on the debtor, and eight days after such service the Court will hear the petition. It may then either make the Receiving Order or dismiss the petition as it thinks fit. Whoever presents the petition must pay the stamp duty of £5, and make the deposit of £5 and fees required by the Bankruptcy Rules.

**Receiving Order.**—If the court is satisfied as to the alleged act or acts of bankruptcy on the part of the debtor, it will forthwith make a Receiving Order against him, and this fact will be duly advertised in the *Gazette*. The effect of the Receiving Order is to constitute the Official Receiver the receiver of the debtor's property, and to stay any proceedings against the debtor by the unsecured creditors.

**Statement of Affairs.**—The Statement must be submitted within three days of the Receiving Order if made on the debtor's petition, or within seven days if made on a creditor's petition. It must also be prepared on the official forms.

**Official Forms.**—On pages 707-713 are reduced facsimiles of the prescribed forms: Lists A-K, List L, and Front Sheet. Each list has to be signed by the debtor and dated, thus—

Signature .....  
Dated .....19...

**List "A"—Unsecured Creditors.**—This includes all cash and trade creditors who have merely a claim upon the general assets of the estate. Creditors on Promissory Notes and Bills Payable are unsecured creditors, as these documents are not documents of title. The balances of debts which exceed the preferential limit (rent, wages, salaries, etc., as per Lists F and G) are also shown on this list. The printed form contains notes *re* treatment of contra accounts and *re* giving of particulars of any bills of exchange held by creditors.

**List "B"—Fully Secured Creditors.**—This includes those creditors who hold some security for their debts, such as a



## In the High Court of Justice.

## IN BANKRUPTCY.

No.

of 19 .

Re

N.B.—You are required to fill up carefully and accurately this sheet, and the several sheets A, B, C, D, E, F, G, H, I, J, and K, showing the state of your affairs on the day on which the Receiving Order was made against you, viz.—the day of 19

Such sheets when filled up will constitute your statement of affairs and must be verified by oath or declaration.

## STATEMENT OF AFFAIRS.

At

19 , date of Receiving Order.

Gross Liabilities.	Liabilities (as stated and estimated by Debtor).	Expected to Rank.	Assets (as stated and estimated by Debtor).	Estimated to produce.
£ s. d.		£ s. d.		£ s. d.
	Unsecured creditors as per list (A)		Property as per list (H), viz.—	
	Creditors fully secured as per list (B) .. ..		(a) Cash at banker's .. ..	
	Estimated value of securities .. ..		(b) Cash in hand .. ..	
	Surplus .. ..		(c) Cash deposited with Solicitor for costs of petition .. ..	
	Less amount thereof carried to sheet (C) ..		(d) Stock-in-Trade (cost £ .. ..)	
	Balance thereof to contra .. ..£		(e) Machinery .. ..	
	Creditors partly secured as per list (C) ..		(f) Trade Fixtures, Fittings, Utensils, etc. .. ..	
	Less estimated value of securities .. ..		(g) Farming Stock .. ..	
	Liabilities on Bills discounted other than Debtor's own acceptances for value as per list (D), viz.—		(h) Growing Crops and Tenant Right .. ..	
	On accommodation bills as Drawer, Acceptor, or Indorser .. ..£ " "		(i) Furniture .. ..	
	On other bills as Drawer or Indorser .. ..£ " "		(j) Life Policies .. ..	
	Of which it is expected will rank against the estate for dividend .. ..		(k) Other Property, viz.—	
	Contingent or other liabilities as per list (E) £ " "		Total as per list (H) ..	
	Of which it is expected will rank against the estate for dividend .. ..		Book debts, as per list (I), viz. :—	
	Creditors for rent, etc., recoverable by distress as per list (F) ..		Good .. ..£ s. d.	
	Creditors for rates, taxes, wages, etc., payable in full as per list (G) ..		Doubtful .. ..	
	Sheriff's charges payable under Sec. 11 of the Bankruptcy Act, 1890, estimated at .. ..		Bad .. ..	
	Deducted contra .. ..£		Estimated to produce .. ..	
			Bills of exchange or other similar securities as per list (J) .. ..£ " "	
			Estimated to produce.. " "	
			Surplus from securities in the hands of creditors fully secured (per contra) .. ..	
			Deduct creditors for distrainable rent, and for preferential rates, taxes, wages, Sheriff's Charges, etc. (per contra) .. ..	
			Deficiency explained in statement list (K) .. ..	

I in the County of make oath and say that the above statement and the several lists hereunto annexed, marked A, B, C, D, E, F, G, H, I, J, and K, are, to the best of my knowledge and belief, a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order made against me.

Sworn at }  
in the County of }  
this day of 19 , } (Signature)  
Before me }



LIST "A,"—UNSECURED CREDITORS.

The Names to be arranged in alphabetical order and numbered consecutively, Creditors for £10 and upwards being placed first.

No.	Name.	Address and Occupation.	Amount of Debt.	Date when contracted.		Consideration.
				Month.	Year.	

NOTES.—(1) When there is a contra account against the Creditor less than the amount of his claim against the estate, the amount of the Creditor's claim and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt," thus—

Total amount of claim .. .. £ : :  
Less contra account .. .. £ : :  
£ : :

No such set-off should be included in sheet "I."

(2) The particulars of any Bills of Exchange and Promissory Notes held by a Creditor should be inserted immediately below the name and address of such Creditor.

LIST "B,"—CREDITORS FULLY SECURED.

No.	Name of Creditor.	Address and Occupation.	Amount of Debt.	Date when contracted.		Consideration.	Particulars of Security.	Date when given.	Estimated value of Security.	Estimated Surplus from Security.
				Month.	Year.					





LIST "G."—PREFERENTIAL CREDITORS FOR RATES, TAXES, AND WAGES.

No.	Name of Creditor.	Address and Occupation.	Nature of Claim.	Period during which Claim accrued due.	Date when due.	Amount of Claim.	Amount payable in full.	Difference ranking for Dividend (to be carried to List A).

LIST "H."—PROPERTY.

Full particulars of every description of property in possession and in reversion as defined by the Bankruptcy Act, 1914, not included in any other list, are to be set forth in this list.

Full Statement and Nature of Property.		Estimated to Produce.
(a) Cash at Bankers..	..	..
(b) Cash in hand ..	..	..
(c) Cash deposited with Solicitor for Costs of Petition ..	..	..
(d) Stock-in-Trade at (cost £ ) ..	..	..
(e) Machinery at ..	..	..
(f) Trade Fixtures, Fittings, Utensils, etc., at..	..	..
(g) Farming Stock ..	..	..
(h) Growing Crops and Tenant Right at ..	..	..
(i) Household Furniture and Effects at ..	..	..
(j) Life Policies..	..	..
(k) Other Property (state particulars), viz.—	..	..



LIST "K."—DEFICIENCY ACCOUNT.

Excess of Assets over Liabilities on the..... day of..... 19..... (if any).....	Excess of Liabilities over Assets on the <sup>1</sup> ..... day of..... 19..... (if any).....	
Net profit (if any) arising from carrying on business from the <sup>1</sup> ..... day of..... 19....., to date of Receiving Order, after deducting usual Trade Expenses ..	Loss (if any) arising from carrying on business from the <sup>1</sup> ..... day of Receiving Order, after deducting from Profits usual Trade Expenses ..	
Income or profit from other sources (if any) since the <sup>1</sup> ..... day of..... 19.....	Bad Debts (if any) as per Schedule "1" <sup>2</sup> .....	
Deficiency as per Statement of Affairs.....	Expenses incurred since the <sup>1</sup> ..... day of..... 19....., other than usual Trade Expenses, viz.: Household Expenses of self and <sup>3</sup> .....	
	Other losses and expenses (if any) <sup>4</sup> .....	
	Surplus as per Statement of Affairs (if any) .. ..	
Total amount to be accounted for <sup>5</sup>		Total amount accounted for <sup>5</sup>

NOTES.—(1) This date should be 12 months before date of Receiving Order, or such other time as Official Receiver may have fixed.  
(2) This Schedule must show when debts were contracted.  
(3) Add "Wife and Children" (if any), stating number of latter.  
(4) Here add particulars of other expenses or losses (if any), including depreciation in the value of stock and effects, or other property as estimated for realisation, and liabilities (if any), for which no consideration received.  
(5) These figures should agree.

LIST "L."  
(In substitution for such of the Sheets named "A—J," as will have to be returned blank.)

LIST.	PARTICULARS AS PER FRONT SHEET.	DEBTOR'S REMARKS.



mortgage, charge, or lien upon any property of the debtor. A creditor under a hire-purchase agreement counts as a secured creditor, as he can demand the return of the goods. The holder of an absolute Bill of Sale is also a secured creditor as regards the chattels mentioned therein. Goods sent on approval or on sale or return remain the property of the owner, and do not form part of the bankrupt's estate. A banker is also a secured creditor in respect of an overdraft, inasmuch as he has a lien on the securities in his possession, unless they have been deposited with him merely for safe custody. A creditor may realise his security and prove for the balance of his debt (if any), or he may surrender his security and prove for the whole of the debt. If, however, the security in the creditor's possession realises more than the amount of the debt, the creditor must hand back the balance for the benefit of the general creditors. Any estimated surplus must be shown on the assets side of the Statement of Affairs. It must be remembered that with mortgage securities, interest will be payable up to date; for a mortgage is not a first charge in respect of principal and a second charge in respect of interest, but a joint charge in respect of both. Where there are first, second, or third charges on the same property in respect of different debts, the surplus from the first debt will be carried forward to the second, and so on.

**List "C"—Creditors Partly Secured.**—These are creditors who have a charge on some part of the debtor's property which, when realised, will pay only a portion of the debt, the balance of which must, therefore, rank against the estate for dividend. On the Statement, the value of the security is deducted from the amount of the debt and only the balance extended.

**List "D"—Liabilities of Debtor on Bills Discounted other than his own Acceptances for Value.**—The debtor's own acceptances for value, *i.e.*, his ordinary Bills Payable, will be included in List "A." The debtor must give particulars on List "D" of all unmatured Bills of Exchange to which he is a party either as drawer or indorser. Although the acceptor of a Bill is the person primarily liable for payment, yet, if he makes default, the liability attaches to every indorser and also to the drawer. All unmatured Bills Receivable discounted with bankers or bill brokers, or indorsed on to creditors, must, therefore, be entered in this list; but only those which the acceptor is expected to dishonour will be shown on

the Statement, as liabilities of the estate ranking for dividend.

Accommodation Bills must also be shown on this List, but in a separate column. On these bills the debtor may be liable not only as drawer or indorser, but also as accommodation *acceptor*. He is not liable to the drawer unless he has received anything for himself, but he is liable to any third party who is a holder for value. Where the debtor is the acceptor, such bills should be extended as liabilities of the estate. Where, however, he is liable merely as drawer or indorser, only those bills expected to be dishonoured should be shown as ranking against the estate for dividend.

**List "E"—Contingent or Other Liabilities.**—On this list must be entered all liabilities as surety or guarantee for others, the balances of shares not fully called up, in respect of any uncompleted contracts or a repairing lease, etc., loans for business purposes from debtor's wife, loans carrying by way of interest a share of profits, etc.

**List "F"—Creditors for Rent, etc., Recoverable by Distress.**—If the landlord distrains within three months before the date of the Receiving Order, he can be called upon to pay the preferential creditors out of the proceeds, becoming a preferential creditor himself for any loss he thereby sustains. As against the other creditors, he can distrain for the whole of the rent due to him. If he distrains after the commencement of the bankruptcy, he is entitled only to *six months'* rent, the balance ranking for dividend.

Gas, Water, and Electric Light Corporations often have power of distraint in respect of their particular charges, and would also appear on this list.

**List "G"—Preferential Creditors for Rates, Taxes, and Wages.**—These are regulated by certain Acts of Parliament, as follows—

**(1) Bankruptcy Act, 1914.**

(a) All parochial and other local rates due from the bankrupt, at the date of the receiving order, and having become due and payable within twelve months next before that time, and all assessed taxes, land tax and property or income tax assessed on the bankrupt up to the fifth day of April next before the date of the receiving order, and not exceeding in the whole one year's assessment.

(b) All wages or salary of any clerk or servant in respect of services rendered to the bankrupt during four months before the date of the receiving order, not exceeding £50; and

(c) All wages of any labourer or workman not exceeding £25, whether payable for time or for piecework, in respect of services

rendered to the bankrupt, during two months before the date of the receiving order; Provided that where any labourer in husbandry has entered into a contract for the payment of a portion of his wages in a lump sum, at the end of the year of hiring, he shall have priority in respect of the whole of such sum or a part thereof as the Court may decide to be due under the contract proportionate to the time of service up to the date of the receiving order.

The above debts rank equally among themselves, and are payable in full, unless the assets of the bankrupt are insufficient to meet them, in which case they abate in equal proportions among themselves. Subject to the retention of such sums as may be necessary for the costs of administration or otherwise, the above debts must be discharged forthwith, so far as the property of the debtor is sufficient to do so.

Under this Act also, the funeral and testamentary expenses of a deceased insolvent are payable in full out of the debtor's estate in priority to all other debts.

The claim of an apprentice or articulated clerk of a bankrupt for the unexpired portion of his premium is a preferential debt. (Sec. 39.)

(2) **Friendly Societies Act, 1896, Section 35.** By this Act a friendly society has a prior claim for money received on its behalf by a bankrupt official of the society.

(3) **Workmen's Compensation Act, 1906, Section 5 (3).** Compensation awarded under this Act to any workmen is preferential to the extent of £100 in each individual case, if the employer goes bankrupt and is not covered by insurance. If the award is covered by insurance the employer's rights against the insurers are transferred to the workman, who may sue the Insurance Company for the amount of his award (Section 1).

(4) **National Insurance Act, 1911.** All contributions payable by the bankrupt in respect of employed workmen in an insured trade during the four months before the date of the Receiving Order are to be treated as preferential payments.

(5) **Savings Bank Act, 1891, Section 13.** The Savings Bank has a prior claim for moneys received on its behalf by a bankrupt official of the savings bank.

**List "H"—Property.**—On this list must be entered all the debtor's belongings in the shape of goods, money, real and personal property wherever situated. The printed list sets out the details required. Only those assets should be included here which are absolutely unfettered. Where assets are pledged or mortgaged as security for debts or loans, the assets appear under such debt or loan as "Value of Security" on the liabilities side, and *not* on the assets side. Surrender value of life policy must be shown, if the policy is in the debtor's own name. Under Other Property are included reversionary interests, leases, stocks, shares, jewellery, and, in the case of the bankruptcy of a firm, surplus (if any) from partners separate estates.

**Property Retained by Bankrupt.**—By the Bankruptcy Act, 1914, the property of the bankrupt divisible amongst his creditors does not comprise the following—

(1) Property held by the bankrupt on trust for any other person ;  
(2) The tools (if any) of his trade, and the necessary wearing apparel and bedding of himself, his wife and children, to a value inclusive of tools and apparel and bedding, not exceeding £20 in the whole.

**List " I "—Debts due to the Estate.**—As can be seen from the printed form, the debts have to be classified into good, doubtful, and bad. The doubtful debts have to be estimated, and the estimated value treated as an asset in the Statement. The prescribed form contains a note *re* the treatment of contra accounts (if any).

**List " J "—Bills of Exchange, Promissory Notes, etc., Available as Assets.**—Particulars must be furnished in this list as to all bills, notes, etc., held by the debtor ; they are, of course, handed over to the Official Receiver immediately the Receiving Order is made.

**List " K "—Deficiency Account.**—The object of this form is to explain the deficiency as shown in the Statement of Affairs, *i.e.*, to show how it has been brought about. Starting from a given date—at least twelve months before the Receiving Order—the initial capital (if any) should be shown on the one side, and all subsequent trading profits, also the surrender value of Life Policy ; on the other side should be detailed trading losses, losses by bad debts, and all expenses or losses other than trade expenses, *viz.*, household expenses of self, wife, and children ; medical attendance ; gambling or Stock Exchange losses ; damages and costs in actions at law ; loss through dishonoured bills or accommodation bills expected to rank ; and the estimated losses on realisation. The balance of this account must agree with the balance (surplus or deficiency) shown by the Statement of Affairs.

**Note on Examination Work.**—Profits and losses are often given *after* charging interest on capital. In such cases the profits and losses must be adjusted in order to eliminate this interest from the Deficiency Account ; thus, the profits must be *increased* and the losses *decreased* by the amount of such interest ; sometimes a small loss will be converted into a profit by this means. With Partners' Salaries, when credited to capital, the profits and losses must also be treated in a similar manner, in order to avoid having to show the salaries in the Deficiency Account as having increased the capital. Where the salaries have been drawn out in cash, such salaries will not have affected the capital, and the profits or losses will not, therefore, require adjustment.

**List " L "—In Substitution for such of the Sheets Named**



**A to J as will have to be Returned Blank.**—The object of this List is to avoid having, in the case of small bankruptcies, to file a number of blank forms. The debtor fills in the letter of each form and writes the word "nil" opposite to the forms which he returns blank.

**Front Sheet.**—The totals of the various lists have to be transferred or carried forward to the "front sheet" or summary. This requires a 2s. bankruptcy stamp. The assets are entered as per the lists "H," "I," and "J," "H" being copied in detail; then follows the surplus (if any) from securities in the hands of fully-secured creditors; and the addition of these four gives the total of the gross assets. The liabilities are entered up from the Lists A to E, and the proper amounts extended into the column headed "Expected to Rank." The liabilities as per Lists F and G, and the sheriff's charges (if any), are then entered, but only in the inner column, added up, and the total deducted from the total of the gross assets on the opposite side. The balance gives the total of the net assets, and this total subtracted from the total of the liabilities ranking for dividend shows the deficiency, which must agree with the deficiency shown in List "K."

**Meetings of Creditors.**—The Creditors meet to discuss the Statement of Affairs submitted by the debtor, together with the Official Receiver's observations on it. They may resolve—

(1) To accept a composition in satisfaction of their debts. (See COMPOSITION.)

(2) To agree to a scheme for the arrangement of the debtor's affairs. (See DEED OF ARRANGEMENT.)

(3) That the debtor shall be adjudged bankrupt; that a trustee be appointed to administer the estate; that a committee of inspection be appointed to assist the trustee.

In each case the consent of the Court is necessary. And if either of the first two courses is approved, the Receiving Order is rescinded. In the last case the debtor is adjudged bankrupt by the Court and notice thereof advertised in the *Gazette*. The debtor is then required to undergo a public examination.

**Public Examination.**—The examination is held in open court as soon as possible after the debtor has furnished his Statement of Affairs, unless the Receiving Order has in the meantime been rescinded. Questions may be put to the debtor by either the Official Receiver or the creditors as to his conduct, his business affairs, and his property.

**Discharge.**—When the public examination is concluded, the debtor may apply to the court for an order of discharge. The court has power to grant it, refuse it, or to suspend it for a time, as it thinks fit, taking into consideration all the circumstances of the case.

By the Bankruptcy Act, 1914, Section 26, the court must refuse the discharge if the debtor has committed any criminal offence against the bankruptcy laws. And it must suspend the order for two years at least in the following cases—

(1) If the assets are insufficient to pay a dividend of 10s. in the £ on the unsecured liabilities, unless this is due to circumstances for which the debtor cannot justly be held responsible.

(2) If proper books of account have not been kept within the three years preceding the bankruptcy.

(3) If the bankrupt has continued to trade after knowing that he was insolvent.

(4) If debts have been contracted with no reasonable prospect of being able to pay them.

(5) If a loss or a deficiency of assets has not been satisfactorily accounted for.

(6) If the insolvency has been brought about by rash and hazardous speculation, unjustifiable extravagance in living, gambling, or culpable neglect of business affairs.

(7) If a creditor has been put to unnecessary expense by a frivolous or vexatious defence to an action properly brought against the bankrupt; or if the latter has incurred unjustifiable expense by bringing a frivolous or vexatious action.

(8) If an undue preference has been given to any creditor within three months of the date of the receiving order.

(9) If within three months of the receiving order liabilities have been incurred with a view to making the assets equal to 10s. in the £ on the unsecured liabilities.

(10) If there has been previous bankruptcy proceedings against the debtor, or if he has previously made a composition or arrangement with his creditors.

(11) If the bankrupt has been guilty of any fraud.

As soon, however, as the debtor has obtained his discharge, he is released from all debts provable in the bankruptcy, except—

(1) Debts due to the Crown ;

(2) Debts incurred through fraud, or through a fraudulent breach of trust ;

(3) Judgment debts in an action for seduction, in affiliation proceedings, or in a matrimonial cause.

**Joint and Separate Estates.**—Section 33 (6) enacts as follows—

In the case of partners the joint estate shall be applicable in the first instance in payment of their joint debts, and the separate estate



of each partner shall be applicable in the first instance in payment of his separate debts. If there is a surplus of the separate estates it shall be dealt with as part of the joint estate. If there is a surplus of the joint estate it shall be dealt with as part of the respective separate estates in proportion to the right and interest of each partner in the joint estate.

Where the joint and separate estates are quite inextricable, they may be treated as one.

**Small Bankruptcies.—By Section 129—**

When a petition is presented by or against a debtor, if the Court is satisfied by affidavit or otherwise, or the Official Receiver reports to the Court that the property of the debtor is not likely to exceed in value £300, the Court may make an order that the debtor's estate shall be administered in a summary manner.

To save expense and simplify procedure, the Official Receiver acts as trustee, and there is no committee of inspection. (See also ADMINISTRATION ORDER.)

**Annulment of Adjudication.**—The Court has power to annul any receiving order which has been made on improper grounds. Where a bankrupt subsequently makes a satisfactory arrangement with his creditors, or afterwards pays his debts in full, the Court may annul the bankruptcy. If this happens, the debtor is restored to his original position before the bankruptcy proceedings.

**Example.**—From the following particulars prepare Statement of Affairs of Messrs. Brown & Co., as at 31st December, 19..—

Plant and Machinery £35,000, expected to realise £30,000.

Stock-in-trade £15,000, expected to produce £8,000.

Patents £15,000, estimated to produce £5,000.

Furniture and Fixtures £750, expected to realise £500.

Cash in hand £20, Cash at bank £200.

Bills Receivable £3,200, all good.

Bills Payable £5,100.

Loans £25,000, having a first charge on the Plant and Machinery.

Liability for damages awarded to injured workman under the Workmen's Compensation Act, 1906, £600, not covered by insurance.

Creditors £35,000, £10,000 of which has a second charge on the Plant and Machinery.

Rent owing 1 year £750, Rates and Taxes 1 year £100, Preferential Wages and Salaries £120.

Book Debts £12,700, Good £8,500 (subject to 5 % cash discount), Doubtful £3,000 (expected to produce 25 %), and the remainder Bad.

Liabilities on Bills Discounted £2,500, of which £125 is expected to rank.

How much in the £ does the estate show approximately ?

## STATEMENT OF AFFAIRS OF Messrs. Brown &amp; Co., 31st Dec., 19..

Gross Liabilities.	Liabilities.	Amount.	Expected to Rank.	Assets.	Book Value.	Expected to Produce.
30,975	Unsecured Creditors (A) (£5,100 + £25,000 + £375 + £500).. ..			Property (H)— Cash in hand .. ..	20	20
25,000	Fully Secured Creditors (B) .. ..	25,000	30,975	Cash at Bank .. ..	200	200
	Value of Security .. ..	30,000		Stock-in-trade .. ..	1,000	8,000
	Surplus to list C .. ..	5,000		Furniture and Fixtures .. ..	750	500
10,000	Partly Secured Creditors (C) .. ..	10,000		Patents .. ..	15,000	5,000
	Value of Security .. ..	5,000	5,000	Total Book Debts (I)— Good .. ..	8,500	13,720
2,500	Liability on Bills Dis- counted (D).. ..	2,500	125	Doubtful .. ..	3,000	8,075
375	Creditors for Rent (F) Preferential Creditors for Rates, Taxes and Wages (G) .. ..	375		Bad .. ..	1,200	750
320	(£100 + £120 + £100)	320		Bills of Exchange (I) .. ..	3,200	Nil.
	Deducted in full con- tra .. ..	695		Total Assets .. .. Less Creditors for Rent, Taxes, Wages, etc., per contra .. ..		3,200
				Net Assets .. ..		25,745
				Deficiency .. ..		695
69,170			36,100			25,050
						11,050
						36,100

$£25,050 \div £36,100 = 13s. 11d.$  in the £ approximately.



**Example.**—From the further particulars furnished by T. H. Brown (who traded as Brown & Co.) make out the Deficiency Account—

Capital at commencement, £30,000.

Net results of the Trading for the last five years, after charging Interest on Capital at the rate of £1,500 per annum—

First two years, profits of £1,010 and £1,240 respectively.

Last three years, losses of £7,200, £5,700, and £6,650 respectively.

Brown's private Drawings had been at the rate of £1,000 per annum.

(See page 722.)

**STATEMENT IN FORM OF A BALANCE SHEET.**—(See ANNUAL SUMMARY.)

**STATEMENT IN LIEU OF PROSPECTUS.**—(See COMPANY.) Specimen on next page.

**STATIONERY.**—(See PRINTING AND STATIONERY.)

**STATISTICAL BOOKS.**—(See BOOK-KEEPING.)

**STATUTE-BARRED DEBT.**—A debt that cannot be recovered owing to the Statutes of Limitations.

**STATUTE OF FRAUDS.**—A statute passed in 1678, which required certain contracts to be evidenced by writing, in order to prevent fraud and perjury.

**STATUTES OF DISTRIBUTION.**—Various statutes by which the distribution of the personal property of a person dying intestate is regulated. Where the deceased has left a widow but no children, the widow is entitled to the whole of the real and personal estate, if under £500. If the estate is over £500, she has a first charge upon it to the extent of £500, and is further entitled to half the balance. Where the deceased has left a wife and children, one-third goes to the wife, and the rest to the children equally, or to their lineal descendants. As regards Real Estate, the wife, generally speaking, is entitled to a life interest of one-third. The numerous other cases can only be learnt by reference to the Intestates Estate Act, 1890.

**STATUTES OF LIMITATIONS.**—Statutes fixing the limits within which actions may be brought. In the case of a simple contract, an action must be commenced within six years of the time when the cause of action arose, while twenty years are allowed for contracts under seal. An acknowledgment of the debt by part payment, or the payment of interest, or by a confession of the debt in writing signed by the debtor, is sufficient to nullify the statute and keep the debt alive. The time limit then begins to run from the date of the acknowledgment. Debts connected with land are statute-barred after twelve years.

THE COMPANIES (CONSOLIDATION) ACT, 1908. (SECTION 82.)  
COMPANY, LIMITED.

## STATEMENT IN LIEU OF PROSPECTUS.

The nominal capital of the company.. ..	£
Divided into .. .. .	Shares of £ each.
	" " "
	" " "
Names, descriptions, and addresses of directors or proposed directors.	
Minimum subscription (if any) fixed by the memorandum or articles of association on which the company may proceed to allotment.	
Number and amount of shares and debentures agreed to be issued as fully or partly paid-up otherwise than in cash.	1. shares of £ fully paid.
The consideration for the intended issue of such shares and debentures.	2. shares upon which £ per share credited as paid.
	3. debenture £
	4. Consideration.
Names and addresses of (a) vendors of property purchased or acquired, or proposed to be (b) purchased or acquired by the company.	(a) For nition vendor Section (2) of Compa (Conso tion) 4
Amount (in cash, shares, or debentures) payable to each separate vendor.	(b) Se tion 8 the C nies (C lidatio
Amount (if any) paid or payable (in cash or shares or debentures) for any such property, specifying amount (if any) paid or payable for goodwill.	Act, 1
Amount (if any) paid or payable as commission for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares or debentures in the company, or	
Rate of the commission .. .. .	Rate per cent.
Estimated amount of preliminary expenses	£
Amount paid or intended to be paid to any promoter.	Name of promoter.
Consideration for the payment.	Amount £
	Consideration—
Dates of, and parties to, every material contract (other than contracts entered into in the ordinary course of the business intended to be carried on by the company or entered into more than two years before the filing of this statement).	
Time and place at which such contracts or copies thereof may be inspected.	
Names and addresses of the auditors of the company (if any).	
Full particulars of the nature and extent of the interest of every director in the promotion of or in the property proposed to be acquired by the company, or where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares, or otherwise, by any person either to induce him to become, or to qualify him as, a director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the company.	
Whether the articles contain any provisions precluding holders of shares or debentures, receiving and inspecting Balance Sheets or reports of the auditors or other reports.	Nature of the provisions.

(Signatures of the persons above-named as directors or proposed directors, or of their agents authorised in writing.)

**STATUTORY DECLARATION.**—(See COMPANY.)

**STATUTORY INCOME.**—(See INCOME TAX.)

**STATUTORY REPORT.**—(See COMPANY.)

**STERLING.**—Standard English money, in contradistinction to the money of other nations.

**STET.**—A Latin term signifying “let it stand.” When a figure or entry has been crossed out by mistake, the word “stet” written alongside it denotes it is to remain as it was originally written.

**STOCK.**—The national debt of a country. The capital of a limited company whose shares have been converted. For the distinction between Stock and Shares, see under COMPANYY.

**STOCK.**—An accumulation of goods ready for sale.

**STOCK ACCOUNT.**—Formerly this was merely another name for Capital Account. Afterwards it denoted the old-fashioned Goods Account. In its modern use it simply records the value of unsold goods at the commencement and finish of each trading period. The Ledger Account may be in ordinary form or ruled with departmental columns, according to the nature and requirements of the business. Stock on hand is valued at the close of the financial period, either at cost or at market price (according to the nature of the business), and is brought into the books by being debited to Stock Account and credited to Trading Account, appearing also on the assets side of the Balance Sheet. Besides the Stock of Goods, there may be other stocks, *e.g.*, coal, cases, stationery, etc. These, however, will be dealt with in their own special accounts, and will not affect the Stock-in-trade.

**STOCK EXCHANGE TRANSACTIONS.**—One side of these transactions—the clients’ side—can be seen under Investment Accounts. The other side—the broker’s side—is shown by the following illustration.

**Example.**—B. Brown had the undermentioned transactions with his broker on the London Stock Exchange—

On the 16th July he bought £12,000 New Zealand Stock at 105½, £10,000 Victoria 3½ % Inscribed Stock at 105¾, and £8,000 Natal Inscribed Stock at 120¾, brokerage being charged at the rate of one-eighth per cent.

On the 24th July he sold the New Zealand Stock at 108½, and the Natal Stock at 121¼. The Victoria Stock was carried forward at 106, contango being charged at one-eighth.

Show B. Brown’s Account in the Broker’s Ledger, ignoring Contract Stamps. (See page 727.)





Dr.		B. BROWN.		Cr.		
July 16	To £12,000 New Zealand 105½..	12,660		July 24	By £12,000 New Zealand 108½..	13,020
"	" Commission ..	15		"	" £8,000 Natal 121½ ..	9,700
"	" £10,000 Victoria 105½ ..	10,575		"	" Balance c/d—	
"	" Commission ..	12	10	"	£10,000 Victoria 106 ..	10,600
"	" £8,000 Natal 120½ ..	9,630				
"	" Commission ..	10				
24	" Cash ..	417	10			
		<hr/> 33,320	<hr/>			<hr/> 33,320
July 25	To Balance b/d—					
	£10,000 Victoria 106 ..	10,600				
	" Contango ..	12	10			

Note 1.—Brokerage or Commission is usually charged on the *nominal* value of the Stock bought or sold.

Note 2.—When Stocks are bought and sold again in the same period of account, Commission is only charged *once*.

### STOCK, REGISTER OF SHARES CONVERTED INTO.—

See specimen ruling on page 726.

STOCKHOLDERS, REGISTER OF.—See ruling on page 726.

STOCK-TAKING.—The process of ascertaining and valuing the goods on hand at the end of the trading period.

STOCK WARRANT.—(See SHARE WARRANT.)

STOCKS AND SHARES ACCOUNT.—(See INVESTMENT ACCOUNTS.)

STOPPAGE IN TRANSITU.—The right of an unpaid seller of goods to retake possession of them so long as the goods are in transit, *i.e.*, have not actually been delivered to the purchaser. The right exists only in cases where the buyer has become insolvent.

STOPPING A CHEQUE.—(See CHEQUE.)

STORAGE.—The charge made for storing or warehousing goods.

STORES ACCOUNT.—(See CONTRACTS.)

STORES ANALYSIS SHEETS.—(See CONTRACTS.)

STORES CONSUMED OR USED.—(See CONTRACTS.)

STORES ISSUED BOOK.—(See COST ACCOUNTS.)

STORES LEDGER.—(See COST ACCOUNTS.)

STORES RECEIVED BOOK.—(See COST ACCOUNTS.)

STORES REGISTER.—Same as STORES LEDGER.

SUBPCENA.—A writ commanding the attendance of a person in court under a penalty, for the purpose of either giving evidence, or producing books, documents, etc., in his possession.

**SUBSCRIBED CAPITAL.**—(See COMPANY.)

**SUBSCRIBERS TO MEMORANDUM OF ASSOCIATION.**—  
(See COMPANY.)

**SUBSCRIPTIONS AND DONATIONS.**—Gifts to charitable institutions or objects, including gratuities to workmen. A separate account is sometimes opened for these items, and closed at balancing time by transfer to Profit and Loss.

**SUBSIDIARY BOOKS.**—(See BOOK-KEEPING.)

**SUB-TENANT.**—A tenant who hires or leases houses or land from a person who is himself a tenant.

**SUCCESSION DUTY.**—The duty payable by the person who succeeds to, or becomes entitled to, real or leasehold property. Leaseholds are personal estate, but are subject to succession duty instead of legacy duty. The rates are the same as for legacy duty, though the method of assessment is different. Succession duty is charged on the net principal value of the property, less the estate duty and any expense in raising and paying it. For an example, see RESIDUARY ACCOUNT.

**SUMMARY OF SHARES AND CAPITAL.**—(See ANNUAL SUMMARY.)

**SUNDRIES.**—(See JOURNAL.)

**SUNDRIES ACCOUNT.**—An account at the back of a Sales Ledger to which small credit transactions are posted, one line being allotted to each person.

**Example—**

Dr.		SUNDRIES ACCOUNT.										Cr.	
Feb. 12	A. Brown, Goods	127	1	10	6	Mar. 31	By Cash & Dis.	285	1	10	6		
Mar. 13	C. Smith, Goods	216	2	3	8								
Apr. 16	F. Peters, Goods	273	1	1	2	Apr. 29	„ Cash ..	298	1	1	2		
„ 30	S. Oliver, Goods	299		18	6								

It is generally reserved for those persons for whom it is not worth while opening a separate account, *i.e.*, chance customers who may not deal with the firm more than once.

**SUNDRIES TO SUNDRIES.**—(See JOURNAL.)

**SUNDRY CREDITORS.**—The total of the Bought Ledger Balances, also called “Sundry Creditors on Open Accounts.”

**SUNDRY DEBTORS.**—The total of the Sales Ledger balances, also called “Sundry Debtors on Open Accounts.” It sometimes happens that there are credit balances in the Sales Ledger. In the majority of cases, these are simply deducted from the total of the debits, and only the net debit

shown on the Balance Sheet. Some accountants, however, prefer to deal with them as follows—

## BALANCE SHEET.

<i>Liabilities.</i>			<i>Assets.</i>		
Sundry Creditors £1,503 15 9			Sundry Debtors (gross amount)	2,096 18 3	
Add Cr. balances					
in Sales Ledger 10 2 1					
	1,513	17 10			

**SUNDRY EXPENSES.**—Same as TRADE EXPENSES.

**SUPERANNUATION FUND.**—A fund accumulated and invested for the purpose of paying pensions to employees. (See also CASH AT BANK.)

**SUPER-TAX.**—(See INCOME TAX.)

**SUPRA PROTEST.**—(See BILL OF EXCHANGE.)

**SURCHARGES.**—(See INCOME TAX.)

**SURFACE RENT.**—(See ROYALTY [MINERAL].)

**SURPLUS.**—(See INCOME AND EXPENDITURE ACCOUNT, and RESERVE.)

**SURRENDER VALUE OF LIFE POLICY.**—(See ASSURANCE.)

**SUSPENSE ACCOUNT.**—An account to which items are posted when there is any uncertainty connected with them. Money is sometimes received without any intimation from whom it comes. In such cases, Cash is debited and Suspense Account credited. Subsequently, when the sender is discovered, the necessary entry can be made closing the Suspense Account by transfer of the amount to the sender's account. Suspense accounts are often used to include all items which have been apportioned at balancing time, though latterly their use for this purpose has fallen into disfavour, owing to the facility with which they can be made to conceal fraud. Large items of expenditure, which it is intended to spread over a series of years, are sometimes posted to a Suspense Account, as in the case of Advertising Suspense Account (*q.v.*). Money and Goods are occasionally lost for a while, and such items are in the meantime placed to a Suspense Account. Costs may be incurred in legal proceedings, but may be ultimately recoverable from someone else; these are often debited to a Suspense Account pending the result of the litigation. Profits on Contracts are sometimes apportioned and placed to a Suspense Account. (See CONTRACTS.)

**SUSPENSION OF PAYMENT.**—This term denotes the

ceasing to pay debts when a banker or merchant becomes aware of his insolvency, and consequently of his inability to pay the whole of his creditors.

**TABLE "A."**—(See COMPANY.)

**TABULAR or COLUMNAR BOOK-KEEPING.**—The Tabular System is a method of book-keeping by means of which items are subjected to continuous analysis or classification, thereby saving the trouble of dissecting and summarising weekly, monthly, or quarterly, as the case may be. It can be applied to almost any book, and thus economises time and saves labour.

**Tabular Purchases Books.**—Examples of these are given under COST ACCOUNTS, DEPARTMENTAL ACCOUNTS, and under PURCHASES BOOK.

**Tabular Sales Books.**—Examples of these are given under DEPARTMENTAL ACCOUNTS and under SALES BOOK.

**Tabular Journals.**—Examples of these can be seen by referring to JOURNAL and SELF-BALANCING LEDGERS.

**Tabula Cash Books.**—Examples of these will be found under CASH BOOK, SELF-BALANCING LEDGERS, TRUSTEE-IN-BANKRUPTCY, WINDING UP (*Liquidator's Cash Book*), and PETTY CASH.

**Tabular Ledger Accounts.**—The student will find examples of these under DEPARTMENTAL ACCOUNTS, BRANCH ACCOUNTS, FOREIGN CURRENCY ACCOUNTS, INVESTMENT ACCOUNTS, and EXECUTORSHIP ACCOUNTS.

**Tabular Ledgers.**—Examples of these are to be found by referring to COST ACCOUNTS (*Cost Ledger, Stores Ledger*), to COMPANY (*Share Ledger*), and to BILL OF EXCHANGE (*Bills Receivable and Payable Ledgers*).

**Tabular Statistical Books.**—Examples of these are the various memorandum books of a Limited Company, viz., Application, Allotment, and Call Books ; Registers of Debenture Holders, of Stock Holders, of Transfers, etc. Further examples are furnished under COST ACCOUNTS, viz., Wages Analysis Book, Stores Received Book, Stores Issued Book.

**Hotel Accounts.**—Specimens of the Visitors' Ledger, Invoice Book, and Cash Book are given on the following pages.





VISITORS'  
(From *Pitman's*  
MONDAY, 6TH

DEBITS.	1			MRS. JOHNSON. 2			MR. STONE. 3			MRS. ANDREW. 4		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Bal. bt. Forward												
Apartments ..					5			6			10	6
Attendance ..					2			2			2	
Baths ..								1				
Fire and Lights												
Boarders ..												
Breakfasts ..					3			2	6		1	6
Luncheons ..					1	6		2			2	
Dinners ..								5	6		4	6
Dessert and Ices												
Sandwiches ..												
Tea and Coffee					1	6					1	
Soups .. ..												
Suppers ..												
Servants' Board											8	
Wine .. ..								3				
Spirits ..								1				
Ales, Stout, etc.												6
Minerals ..									6			
Cigars .. ..												
Stationery ..												
Newspapers ..												
Postage ..												
Paid Out ..												
Washing ..												
Carriage ..												
Billiards ..												
TOTAL					13		1	3	6	1	10	
CREDITS.												
Overcharges ..												
Cash Received												
Ledger a/c ..												
Bal. car. Forward					13		1	3	6	1	10	
TOTAL					13		1	3	6	1	10	
Folio Ledger a/c												
Transferred to												

TAB]

## DICTIONARY OF BOOK-KEEPING

[TAB

LEDGER.

*Hotel Book-keeping.)*

JUNE, 19...

5			DEBITS.	Daily Total.			Bt. Forward.			Cd. Forward.		
£	s.	d.		£	s.	d.	£	s.	d.	£	s.	d.
			Bal. bt. Forward									
			Apartments ..	1	1	6				1	1	6
			Attendance ..		6						6	
			Baths ..		1						1	
			Fire and Lights									
			Boarders ..									
			Breakfasts ..		7						7	
			Luncheons ..		5	6					5	6
			Dinners ..		10						10	
			Dessert and Ices									
			Sandwiches ..									
			Tea and Coffee		2	6					2	6
			Soups ..									
			Suppers ..									
			Servants' Board		8						8	
			Wine ..		3						3	
			Spirits ..		1						1	
			Ales, Stout, etc.			6						6
			Minerals ..			6						6
			Cigars ..									
			Stationery ..									
			Newspapers									
			Postage ..									
			Paid Out ..									
			Washing ..									
			Carriage ..									
			Billiards ..									
			TOTAL	3	6	6				3	6	6
			CREDITS									
			Overcharges ..									
			Cash received ..									
			Ledger a/c ..									
			Bal. car. Forward	3	6	6				3	6	6
			TOTAL	3	6	6				3	6	6
			Folio Ledger a/c									
			Transferred to									

**TALE QUALE.**—"According to Sample." An expression used in contracts when grain and other produce is sold "to arrive." It means that the goods as they lie are held to be the same as the sample submitted, but the buyer takes the risk of any damage the produce may afterwards sustain during the voyage.

**TALON.**—A certificate attached to transferable bonds (usually the last portion of the coupon sheet), to be exchanged for an additional series of coupons as soon as those on the current coupon sheet have all been presented and paid. (See COUPON.)

**TARE.**—An allowance for the weight of the case, cask, bag, chest, or other article in which goods are packed.

**TARIFF.**—A list of the various articles upon which Customs duties are levied, together with the rates charged. Hence, any list, table, or schedule of fixed charges.

**TELEGRAPHIC TRANSFER.**—A message sent by wire, ordering the transfer of a specified sum of money from one person to another by means of debit and credit of their respective accounts. Branch businesses and agents abroad often cable to headquarters for immediate funds. Headquarters will then instruct their bankers to cable to the bank's representatives abroad to place a certain sum at the disposal of the branch or agency.

**TELEPHONE RENT PREPAID.**—(See ADJUSTMENTS AT BALANCING TIME.)

**TELLER.**—The cashier of a bank who receives and pays out money over the counter.

**TENANT.**—A person who holds property, houses, or land from another, and pays rent for same.

**TENDER.**—A written offer to supply certain goods on the terms and conditions specified.

**TENEMENT.**—Land or property held by a tenant.

**TENOR.**—The term or currency of a Bill of Exchange.

**TENTAIL.**—(See ROYALTY [MINERAL].)

**TENURE.**—The manner of holding land or houses, as copyhold tenure, freehold tenure, etc.

**TERMINABLE ANNUITIES.**—Annuities granted by the Government or Life Offices for a term of years on present payment of a fixed sum of money. (See NATIONAL DEBT.)

**TERMINAL or CONTRACT COST ACCOUNTS.**—(See COST ACCOUNTS.)

**TESTAMENT.**—A will.

**TESTAMENTARY EXPENSES.**—Expenses connected with the proving of a will, including the death duties, interest thereon, and the expenses of any action at law in connection with the will.

**TESTATOR.**—A person who, before his death, has made and left a testament or will.

**TIME SHEETS.**—(See **CONTRACTS.**)

**TO.**—A prefix used when posting transactions on the debit side of a ledger account. Every transaction affects two accounts; and one account is said to be *debtor to*, or *creditor by*, the other.

**TOOLS.**—(See **LOOSE TOOLS.**)

**TOTAL CHECKING ACCOUNTS.**—(See **SELF-BALANCING LEDGERS** and **ADJUSTMENT ACCOUNTS.**)

**TOTAL COST.**—(See **COST ACCOUNTS.**)

**TRADE BILL.**—A bill of exchange drawn in the ordinary course of trade for value received, as distinguished from an accommodation bill.

**TRADE CHARGES.**—These are expenses of a very varied character incurred in running a business. Generally speaking, they are expenses for which it is not worth while opening separate accounts, hence their amalgamation under this heading. They are also termed **General Expenses**, **Sundry Expenses**, and **Petty Expenses**. Trade Expenses formerly denoted Works Expenses, and as such were debited to the Trading Account. This practice still obtains where a distinction is made between Trade Expenses and Office Expenses. In the great majority of cases, however, Trade Expenses are a collection of miscellaneous items of expenditure, and are charged to the Profit and Loss Account. (See **OFFICE EXPENSES.**)

**TRADE DISCOUNT.**—(See **DISCOUNT.**)

**TRADE EXPENSES.**—Same as **TRADE CHARGES.**

**TRADE MARK.**—A particular mark, stamp, or device affixed or attached to manufactured goods, indicating to the public generally that the goods are the genuine productions of the person or persons who are the proprietors of the trade mark. Trade marks must be registered, and registration is valid for fourteen years. They are treated as an asset in the books and dealt with in a similar manner to Patents. (See **DEPRECIATION.**)

**TRADE UTENSILS.**—Tools, implements, and other things for use in a business, as opposed to Fixtures and Fittings or

Plant and Machinery; for instance, pails, brooms, steps, trolleys, carrier tricycles, etc., would come under this designation.

**TRADING ACCOUNT.**—An account constructed in order to ascertain the *gross profit* made by trading. It is debited with the Stock at start, the Purchases, Wages, Carriage, etc., and credited with the Sales and the Stock at finish of the trading period. It is virtually the first part of the yearly or half-yearly general summary of gains and losses called the Profit and Loss Account, and is now combined with it under the heading of **Trading and Profit and Loss Account**. The balance of the Trading Account is carried to the Profit and Loss Account.

**Distinction between Trading Account and Profit and Loss Account.**—All *purchase and manufacturing expenses*, such as carriage inwards and productive wages, are charged to the Trading Account; all *selling, establishment, and distribution expenses*, such as salaries, rent, carriage outwards, etc., are charged to the Profit and Loss Account.

**Distinction between a Trading Account and a Cost Account.**—A Cost Account includes the *whole* of the cost expenses. A Trading Account includes only *part* of them. Those items of prime cost which vary directly with the turnover (sales), such as Wages, Coal and Coke, etc., are charged to Trading Account; but those items of cost which do not vary directly with the turnover, such as Repairs and Renewals of Buildings, Repairs to Machinery, Depreciation of Plant, etc., are charged to Profit and Loss Account. The object of this is to keep the rate of gross profit on turnover constant, in order to facilitate comparisons of different trading periods. For example, an accident might, one year, make the Repairs to Machinery a very big item; or a gale might cause great damage to the buildings, and necessitate heavy expense; or a new invention might render the plant and machinery obsolete, and involve a large outlay for replacement. If expenditure of such a variable nature were to be charged to the Trading Account, the rate of gross profit would be subject to violent fluctuations, and comparisons of different periods would be misleading and, therefore, useless. Rent of Factory, it should be noted, is placed by some accountants in the Trading Account, and by others in the Profit and Loss Account.

**Difference between a Trading Account and a Manufacturing**

**Account.**—A Trading Account, strictly speaking, deals only with *finished goods*, *i.e.*, goods ready for sale, either purchased or manufactured. A Manufacturing Account, properly so-called, deals only with *raw materials* and manufacturing expenses. In large concerns a separate account is opened for each, and the balance of the one transferred to the other, as explained and illustrated under MANUFACTURING ACCOUNT and COST ACCOUNTS. In small concerns, the two are merged in the Trading Account, or combined in one account under the heading of **Manufacturing and Trading Account**.

**Note on Carriage.**—When Carriage appears in the Trial Balance and is not specified as inwards or outwards, it is generally assumed to be inwards and is charged to the Trading Account.

**Note on Examination Work.**—Items in the Trial Balance are dealt with only *once*, either in the Profit and Loss Account or in the Balance Sheet; but items outside the Trial Balance, *i.e.*, the adjustments, are dealt with twice, in the Profit and Loss Account *and* in the Balance Sheet. For example, Directors' Fees in the Trial Balance would simply be entered in the Profit and Loss Account; but Directors' Fees outside the Trial Balance, *i.e.*, an adjustment to be made, would be put to Profit and Loss Account, and would also be shown as a liability on the Balance Sheet.

**TRADING AND PROFIT AND LOSS ACCOUNT (PERCENTAGE SYSTEM).**—(See COST ACCOUNTS.)

**TRADING AND PROFIT AND LOSS ACCOUNT (TABULAR).**—(See DEPARTMENTAL ACCOUNTS.)

**Example 1 (Elementary).**—From the following particulars, prepare Trading and Profit and Loss Accounts, and Balance Sheet, as at December 31st, 19...

TRIAL BALANCE.				Dr.			Cr.		
Sundry Debtors	..	..	4,650	15	2				
Bills Receivable	..	..	3,600	6	1				
Sundry Creditors	..	..				4,500	18	4	
Bills Payable	..	..				3,500	2	11	
Plant and Machinery	..	..	2,520						
Fixtures and Fittings	..	..	760						
Stock, 1st Jan...	..	..	3,000						
Purchases	..	..	21,151	2	6				
Sales	..	..				28,158	16	9	
Wages	..	..	2,025	6	7				
Carried forward	..	..	37,707	10	4	36,159	18		





## BALANCE SHEET AS AT DEC. 31ST, 19...

<i>Liabilities.</i>				<i>Assets.</i>			
Bills Payable .. ..	3,500	2	11	Cash in hand .. ..	24	17	5
Sundry Creditors .. ..	4,500	18	4	„ at Bank .. ..	5,133	6	6
Outstanding Accounts .. ..	275	11	5	Bills Receivable .. ..	3,600	6	1
Reserve Account .. ..	2,000			Sundry Debtors .. ..	4,650	15	2
Capital Account £9,450 0 0				Stock-in-Trade .. ..	3,500		
add Profit .. 1,362 12 6				Plant and Machinery .. ..	2,520		
	10,812	12	6	Fixtures and Fittings .. ..	760		
less Drawings 900 0 0							
	9,912	12	6				
	20,189	5	2		20,189	5	2

**Example 2 (Intermediate).**—The Capital of the Retrop Manufacturing Co., Ltd., consists of 80,000 shares of £1 each, partly called up. The Stock at December 31st, 19.., was valued at £22,000. From the following Ledger Balances as at December 31st, 19.., you are required to prepare Trading and Profit and Loss Accounts, and Balance Sheet, after making all necessary adjustments.

	£	s.
Share Capital Account .. ..	60,000	
Machinery and Plant .. ..	22,500	
Stock 1st Jan., 19.. ..	15,000	
Repairs to Buildings .. ..	850	
„ to Machinery (Wages of own men) ..	200	
Sales less Returns .. ..	106,600	
Bad Debts .. ..	825	
Cash in hand .. ..	65	
Goods sent on Consignment <i>Cr.</i> .. ..	2,800	
„ sent to Branches <i>Cr.</i> .. ..	2,500	
Cash at Bank .. ..	8,580	
6 per cent. Mortgage Debentures .. ..	10,000	
Reserve Fund (invested) .. ..	16,000	
Manufacturing Wages .. ..	28,000	
Purchases less Returns .. ..	58,400	
Provision for Audit Fee .. ..	105	
Unpaid Dividends .. ..	65	
Bills Receivable .. ..	250	
Trade Expenses .. ..	1,850	
Branch Account ( <i>Dr.</i> balance) .. ..	275	
Rates and Taxes .. ..	620	
Carriage Inwards .. ..	4,500	
Freehold Buildings .. ..	30,000	
Consignment Account ( <i>Cr.</i> balance) .. ..	675	
Debenture Interest .. ..	300	
Sundry Debtors .. ..	18,600	
„ Creditors .. ..	15,500	
First Call Account ( <i>Dr.</i> balance) .. ..	125	

(Continued on page 742.)

## TRADING AND PROFIT AND LOSS ACCOUNT.

Dr.

For the Year ending 31 Dec., 19...

Dr.		Cr.	
To Stock 1 Jan. ..	15,000	By Sales, less Returns ..	106,600
" Purchases, less Returns ..	58,400	" Goods sent on Consignment ..	2,800
" Manuf. Wages ..	28,000	" " sent to Branches ..	2,500
" Carriage Inwards ..	4,500	" Materials used for Repairs ..	500
" Coal, Coke, Gas, and Water ..	800	" Stock, 31 Dec. ..	22,000
" Balance (Gross Profit) ..	27,700		
	134,400		134,400
To Repairs to Buildings ..	850	By Balance (Gross Profit) ..	27,700
" " to Machinery (200 + 500) ..	700	" Rents Received ..	325
" Provision for Audit Fee ..	825	" Reserve for Discount on Creditors' 2½%, £15,500 ..	387
" Trade Expenses ..	105	" Discounts Received ..	350
" Discounts Allowed ..	1,850	" Branch Account ..	425
" Rates and Taxes ..	750	" Consignment Account ..	675
" Debenture Interest (300 + 300) ..	600		
" Interest and Bank Charges ..	220		
" Salaries ..	3,325		
" Carriage Outwards ..	2,913		
" Bad Debts Reserve, 5% £18,600 ..	930		
" Less Old Reserve ..	800		
			29,863
" Reserve for Discount on Debtors' 5%, £17,670 ..			
" Depreciation—	883		10
Buildings, 2½%, £30,000 ..	750		
Plant, etc., 10%, £22,500 ..	2,250		
" Appropriation Account (Net Profit) ..	13,091		10
	29,863		

## APPROPRIATION ACCOUNT.

Dr.

Dr.		Cr.	
To Interim Dividend ..	2,987	By Balance, 1st Jan. ..	1,250
" Balance to Balance Sheet ..	11,354	" Net Profit for Year ..	13,091
			10
			14,341
			10



	£	s.
Second Call ( <i>Dr.</i> balance) .. .. .	125	
Interest and Bank Charges .. .. .	220	
Bad Debts Reserve, 1st Jan., 19.. ..	800	
Profit and Loss Account ( <i>Cr.</i> balance), 1st Jan., 19..	1,250	
Salaries .. .. .	3,325	
Bills Payable .. .. .	800	
Carriage Outwards .. .. .	2,913	
Interim Dividend paid 3rd Sept., 19..	2,987	10
Calls paid in Advance .. .. .	500	
Rents Received .. .. .	325	10
Coal, Coke, Gas, and Water .. .. .	800	
Discounts Allowed .. .. .	750	
„ Received .. .. .	350	

Depreciation—Buildings, 2½%; Plant and Machinery, 10%.

Reserve for Discount—*Drs.*, 5%; *Crs.*, 2½%.

Reserve for Bad Debts, 5%. Stock at Branch, 31st Dec., £700.

Materials used from Stock during year for Repairs to Machinery, £500

### Example 3 (Advanced).—

X. Y. Z. ENGINEERING CO., LTD.

LEDGER BALANCES *as at Dec 31st, 19...*

	£	s.	d.
Ordinary Share Capital (200,000 shares of £1 each, fully paid, except 500 forfeited) .. .. .	199,500		
6% Preference Share Capital (200,000 shares of £1 each, 10s. called up) .. .. .	100,000		
Deferred Share Capital (5,000 shares of £10 each, fully paid) .. .. .	50,000		
5% Debentures (repayable in 10 years) .. .. .	50,000		
Preference Share Premium .. .. .	5,000		
Calls Paid in Advance .. .. .	200		
„ in Arrear .. .. .	500		
Reserve Fund Account .. .. .	50,000		
Debenture Sinking Fund Account .. .. .	10,000		
Forfeited Shares Account .. .. .	125		
Unclaimed Dividends .. .. .	105		
Debenture Sinking Fund Investments .. .. .	10,000		
Unclaimed Debenture Interest .. .. .	35		
£5,000 Consols at 87 .. .. .	4,350		
Cash in hand .. .. .	315		
„ at Bank .. .. .	60,200		
Patent Rivet Co. Shares (5,000 of £1, 10s. paid up) .. .. .	2,500		
Sundry Debtors .. .. .	20,000		
„ Creditors .. .. .	17,000		
Bills Receivable (under discount, £4,000) .. .. .	5,000		
„ Payable .. .. .	2,968	6	8
Freehold Land and Buildings, 1st Jan., 19..	200,000		
Plant and Machinery, 1st Jan., 19..	150,000		
Electric Light Installation, 1st Jan., 19..	15,000		
Furniture and Fixtures, 1st Jan., 19..	3,500		
Goodwill .. .. .	30,000		
Additions to Plant and Machinery .. .. .	5,095		
„ Buildings .. .. .	2,500		









**X. Y. Z. ENGINEERING COMPANY, LTD.**  
**BALANCE SHEET AS AT 31st DEC., 19..**

Capital and Liabilities.		Property and Assets.	
<b>Authorised Capital—</b>			
200,000 Ordinary Shares of £1 each	200,000	Freehold Land and Buildings	200,000
200,000 6% Preference Shares of £1 each	200,000	Less Depreciation	5,000
5,000 Deferred Shares of £10 each	50,000		
	<b>450,000</b>	<i>Additions during Year</i>	195,000
			2,500
<b>Issued Capital—</b>		Plant and Machinery	150,000
200,000 Ordinary Shares of £1 each, fully called up	200,000	Less Depreciation	15,000
Less 500 forfeited	500		
	<b>199,500</b>	<i>Additions during Year</i>	135,000
			5,095
200,000 6% Preference Shares of £1 each, 10/- per share called up	200,000	Goodwill	
Add Calls in Advance	200	Electric Light Installation	
	<b>100,200</b>	Less Depreciation	15,000
			1,500
5,000 Deferred Shares of £10 each, fully paid	50,000	Furniture and Fixtures	3,500
5% Debentures	5,000	Less Depreciation	175
Reserve Fund Account			
Added this Year		Loose Tools	3,325
		Stock-in-Trade	4,300
		Work in Progress	30,000
		Stock of Stationery, Catalogues, etc.	6,000
		Sundry Debtors	70
		Less Bad Debts Reserve	20,000
			1,000
		<i>Less Discount Reserve</i>	19,000
			475
Debiture Sinking Fund Account		Bills Receivable	18,525
Added this Year		Insurance Prepaid	5,000
		Interest Due on Calls in Arrear	50
Forfeited Shares Account		Debiture Sinking Fund Investments	6
		£5,000 Consols at 87	10,000
			4,350
			5
			50
			6
			10,000
			4,350



## Depreciation (ignoring additions)—

Plant and Machinery,	10%.
Furniture and Fixtures,	5%
Land and Buildings,	2½%
Electric Light Installation,	10%.

The Preference Share Premium to be used to help write off the Preliminary Expenses Account, the balance to be charged to the Profit and Loss Account.

Transfer £5,000 to the Debenture Sinking Fund Account and £5,000 to the Reserve Fund Account.

Make out Trading and Profit and Loss Accounts and Balance Sheet, after providing Dividend on Ordinary Shares at 10 per cent. and on Deferred Shares at 20 per cent. (See pages 744-747.)

Note.—The Reserve for Income Tax is arrived at as follows—

## INCOME TAX ADJUSTMENT ACCOUNT.

Net Profit as per Profit and Loss Account (£44,950 6s 10d. + £2,791 6s. 6d.) ..				47,741	13	4
Add (items not allowed)—						
Depreciation of Tools (Trading Account) ..	200					
Income Tax (Schedule A) .. ..	583	6	8			
Debenture Interest .. ..	2,500					
Preliminary Expenses .. ..	1,000					
Repairs to Plant (excess of average) ..	500					
Reserve for Discount on Debtors.. ..	475					
Interest on Calls in Advance .. ..	10					
Depreciation.. .. ..	21,675			26,943	6	8
				74,685		
Deduct (not taxable)—						
Bad Debts Reserve (Cr balance) .. ..	50					
Reserve for Discount on Creditors .. ..	425					
Deduct (already taxed)—						
Rents Received .. ..	176	0	10			
Dividends on Consols .. ..	117	14	2			
"    on Shares .. ..	95					
Annual Value of Premises (£583/6/8 × 240)						
	10,000			10,863	15	
14						
Less Claim for Wear and Tear of Plant—				63,821	5	
say 5%, £150,000 .. ..				7,500		
Taxable Profit for Year ..			£	56,321	5	

**TRANSFER.**—A document used by the seller of registered stocks and shares when transferring them to the buyer. The following is a specimen—

STAMP

Seal

749





**TRANSIT, STOCK AND REMITTANCES IN.**—(See **BRANCH ACCOUNTS**.)

**TRAVELLER'S COMMISSION AND EXPENSES.**—Where travellers are extensively employed, and remunerated by means of commission and expenses, a separate account is generally kept for such expenditure. The account is closed eventually to Profit and Loss.

**TRAVELLING EXPENSES.**—Where these are very numerous, a separate account is generally opened for them, which is closed at balancing time by transfer to Profit and Loss.

**TREASURY BILLS.**—These are bills issued by the Government payable at three, six, or twelve months after date. They form part of the National Debt.

**TRIAL BALANCE.**—A list of the debit and credit balances in a ledger, made out in order to check the arithmetical accuracy of the postings. Sometimes the totals on each side of the ledger accounts are extracted, instead of merely the balances; this way had considerable advantages when, years ago, every transaction was journalised, as the total of the Journal then agreed with the totals of the Trial Balance, and thus formed an additional check. Under double entry book-keeping, the total debit in the ledger must always equal the total credit, and a trial balance is prepared with the object of ascertaining whether this is so or not.

**Example.**—See under **JOURNAL** the example posted to the Ledger (pages 530 and 531). Prove same by means of a Trial Balance.

**First Way (totals).—**

TRIAL BALANCE, JAN. 31ST, 19...

<i>Dr.</i>				<i>Cr.</i>		
156	Capital Account .. ..			1,000		
157	Cash .. ..	1,148	13	2	355	13
158	Goods .. ..	358	4		227	19
159	T. Phillips .. ..	256	15	6	297	11
160	J. Rogers .. ..	139	19	11	83	4
161	B. Brown .. ..	23	13	8	23	13
162	C. Coffee .. ..	20	16	7		
163	Discount .. ..	1	14	11	6	15
164	Rent .. ..	20				
165	Wages .. ..	15	10	6		
166	Trade Expenses .. ..	9	10	8		
£ 1,994				18	11	1,994
				18	11	

## Second Way (balances).—

TRIAL BALANCE, JAN. 31ST, 19...

				<i>Dr.</i>			<i>Cr.</i>		
156	Capital Account .. ..					1,000			
157	Cash .. ..	792	19	6					
158	Goods .. ..	130	4	4					
159	T. Phillips .. ..					40	16		
160	J. Rogers .. ..	56	15						
162	C. Coffee .. ..	20	16	7					
163	Discount .. ..					5	0	7	
164	Rent .. ..	20							
165	Wages .. ..	15	10	6					
166	Trade Expenses .. ..	9	10	8					
				£	1,045	16	7	1,045	16 7

**Errors not Revealed by Trial Balance.**—A Trial Balance, if it agrees, is generally taken as evidence of the correctness of the work, though it is not an *absolute* proof. The following errors will not be revealed by a Trial Balance—

(1) **Compensating Errors**, or errors of the same amount on both sides of the Ledger. For example, if Brown has been debited with £10 too much, and if Smith has been credited with £10 too much, then the Trial Balance will not disclose the mistake. If a Journal entry has been omitted altogether, the agreement of the totals of the Trial Balance will not be affected; hence the error will not be shown.

(2) **Items posted to the wrong accounts.** For example, if £50 has been debited to M. Brown instead of N. Brown, the Trial Balance will not show the mistake, as the latter does not prevent the agreement of the Trial Balance.

**Non-Agreement of Trial Balances.**—The following are some of the commonest errors which prevent the agreement of the Trial Balance—

(1) **Omission of the Cash and Bank Balances** as per the Cash Book.

(2) **Non-posting of the totals of the Purchases and Sales Books** to their Ledger Accounts.

(3) **Non-posting of the totals of the Discount columns of the Cash Book** to the Discount Account in the Ledger; also wrong posting of the totals, the sides being frequently reversed in posting, whereas they should not be.

(4) Balances taken out correctly from the Ledger, but entered in the wrong column of the Trial Balance.

**TRUE DISCOUNT.**—(See DISCOUNT.)

**TRUST.**—A combination of manufacturing firms, formed for the purpose of creating a monopoly, or to regulate the prices of commodities, and thus prevent ruinous competition.

**TRUSTEE.**—One in whom is vested the legal ownership of a deceased's estate, as opposed to the *cestui qui trust* who enjoys the income from it.

**TRUSTEE-IN-BANKRUPTCY.**—A person appointed by the creditors of a debtor who has been adjudged a bankrupt, to take over his property. The appointment is subject to the approval of the Board of Trade. The trustee's duties are to realise the debtor's estate, and distribute the proceeds, after paying the preferential claims, among the unsecured creditors. He must keep a Cash Book in the prescribed form, and must also render a Statement of Receipts and Payments. (See pages 754 and 755.)

**Example.**—From the following particulars make out the trustee's *Account of Receipts and Payments* to date of First and Final Dividend—

RECEIPTS.

Cash deposited with solicitor, £10 ;  
Cash in hand, £20 ;  
Cash at Bank, £200 ;  
Stock, £9,050 ;  
Furniture and Fixtures, £450 ;  
Patents, £3,000 ;  
Book Debts, £8,200 ;  
Bills of Exchange, £3,146.

PAYMENTS.

Board of Trade and Court Fees, £186 19s. ;  
Law Costs of Petition, £56 15s. 8d. ;  
Taxed Costs of Accountant and Shorthand Writer, £295 12s. 11d. ;  
Guarantee Premium, £15 15s. ;  
Cost of Notices in *Gazette* and local papers, £6 12s. 10d. ;  
Incidental Outlay—Postages, Stationery, etc., £57 13s. 9d. ;  
Allowance to Debtor, £120 ;  
Preferential Creditors for Rent, £375 ;  
" " " Rates, Taxes, and Wages, £320 ;  
Liquidator's Remuneration (as fixed by the Committee of Inspection), 3% on £20,700 Assets realised, and 3% on Dividend distributed to Unsecured Creditors, whose debts amounted to £36,650.  
See page 756 for solution.







## TRUSTEE'S ACCOUNT OF RECEIPTS AND PAYMENTS

*Dr.* To date of First and Final Dividend. *Cr.*

RECEIPTS.	Amount.	PAYMENTS.	Amount.
To Cash deposited with		By Board of Trade and Court	
Solicitor .. ..	10	Fees .. ..	186 19
" Cash in hand .. ..	20	" Law Costs of Petition .. ..	56 15 8
" " at Bank .. ..	200	" Trustees' Remuneration (as	
" Stock .. ..	9,050	fixed by the Committee of	
" Furniture and Fixtures .. ..	450	Inspection—	
" Patents .. ..	3,000	3% on £20,700 realised .. ..	621
" Book Debts .. ..	8,200	3% on £21,379 3s. 4d.	
" Bills of Exchange .. ..	3,146	distributed* .. ..	641 7 6
		" Taxed Costs of Accountant	
		and Shorthand Writer .. ..	295 12 11
		" Guarantee Premium .. ..	15 15
		" Costs of Notices in <i>Gazette</i>	
		and local papers .. ..	6 12 10
		" Incidental Outlay: Post-	
		ages, Stationery, etc. .. ..	57 13 9
		Total Costs and Charges	1,881 16 8
		" Allowance to Debtor .. ..	120
		" Preferential Creditors—	
		Rent .. ..	375
		Rates, Taxes, and Wages.	320
		" First and Final Dividend of	
		11s. 8d. in the £ to	
		Unsecured Creditors on	
		£36,650 .. ..	21,379 3 4
	£ 24,076		£ 24,076

\* Same as 18<sup>3</sup>/<sub>3</sub> of the gross amount (£22,020 10s. 10d.) distributable.

**TURNOVER.**—The total sales of a trader for a given period. (See OUTPUT.)

**ULLAGE.**—The difference between the proper and the actual contents of a cask; also an allowance made for leakage, evaporation, etc.

**UNCALLED CAPITAL.**—(See COMPANY.)

**UNCLAIMED DEBENTURE INTEREST.**—(See DEBENTURE INTEREST.)

**UNCLAIMED DIVIDENDS.**—(See DIVIDENDS.)

**UNDATED BILL.**—(See BILL OF EXCHANGE.)

**UNDATED CHEQUE.**—(See CHEQUE.)

**UNDERWRITER.**—One who transacts marine insurance; he writes his name on the policy under the amount he agrees to insure, hence the use of the term. It also denotes a person who guarantees, for the sake of a commission, to place any shares offered by a Limited Company to the public for which the latter do not subscribe.

**UNDERWRITING COMMISSION.**—(See COMPANY.)

**UNDISCHARGED BANKRUPT.**—An insolvent debtor who has not yet received his discharge from the Bankruptcy Court. (See DISCHARGE.)

**UNEARNED INCOME.**—(See INCOME TAX.)

**UNEXPIRED VALUES OF PAYMENTS.**—(See ADJUSTMENTS AT BALANCING TIME.)

**UNFUNDED DEBT.**—(See NATIONAL DEBT.)

**UNISSUED CAPITAL.**—(See COMPANY.)

**UNITS OF OUTPUT OR EARNING.**—(See COST ACCOUNTS.)

**UNLIMITED COMPANIES.**—(See COMPANY.)

**UNPAID CALLS.**—Calls in Arrear. (See COMPANY.)

**UNPAID CAPITAL.**—(See COMPANY.)

**UNPAID DEBENTURE INTEREST.**—Same as UNCLAIMED DEBENTURE INTEREST.

**UNPAID DIVIDENDS.**—Same as UNCLAIMED DIVIDENDS.

**UNPRODUCTIVE WAGES.**—(See COST ACCOUNTS.)

**UNREMUNERATIVE WAGES.**—(See COST ACCOUNTS.)

**UNSECURED CREDITORS.**—(See STATEMENT OF AFFAIRS.)

**UPON CREDIT.**—A term applied to sales, denoting that, although the goods have been sold, they have not yet been paid for.

**USANCE.**—(See FOREIGN BILL OF EXCHANGE.)

**VALUATION BALANCE SHEET.**—(See ASSURANCE.)

**VALUE RECEIVED.**—(See BILL OF EXCHANGE.)

**VENDEE.**—The person to whom anything is sold.

**VENDOR.**—The person who sells.

**VENDORS' SHARES.**—(See COMPANY.)

**VENDUE.**—The place of sale.

**VIA.**—(See FOREIGN BILL OF EXCHANGE.)

**VOLUNTARY LIQUIDATION.**—(See WINDING UP.)

**VOUCHER.**—Any document in support of a transaction or account, such as Petty Cash vouchers, vouchers for receipts and issues of stores, etc.

**VOYAGE ACCOUNT.**—This is similar to a Profit and Loss or Revenue Account. Each voyage is numbered; and a separate account is kept of all expenses and charges pertaining to each voyage, as well as of the freight earned by each.

**Example.**—(Chartered Accountants' Final)—

The "Glenisla" Steam Ship Co., Ltd., own one "tramp

steamer," the s.s. *Glenisla*, 2,211 tons gross register, which was chartered on February 27th, 1922, as follows—

Cardiff to Genoa with Coal at 8s. 9d. per ton.

NOTE.—The charter stipulates for an address commission to the charterers of 2 per cent. on the freight, payable on signing Bill of Lading, together with a brokerage of 5 per cent. to the charterers' agents, of which one-third is repayable to the vessel.

Agua Amarga (Spain) to Barrow with Ore at 8s. 3d. per ton.

NOTE.—Address commission of  $2\frac{1}{2}$  per cent. on freight payable to charterers, and a brokerage of one-third of 5 per cent. payable to charterers' agents on signing charter.

The vessel was insured at Lloyd's on April 29th, 1921, the inclusive premium for one year being £1,952 10s. 8d., and the managing owners' remuneration was fixed by the Articles of Association at 2s. 6d. per gross register ton per annum.

The voyage commenced on 9th March, 1922, and the following are the particulars from which the accounts are to be made up—

	£	s.	d.
Freight on 3,190 tons Coal to Genoa, and freight on 3,660 tons Ore to Barrow—			
Stores Accounts .. .. .	162	8	1
Port Charges, Trimming, etc., Cardiff .. .. .	121	2	3
Captain's Accounts for Harbour Wages, etc., Cardiff ..	64	7	6
Bunker Coals, as per Engineer's Receipt—279 tons at 9s.; 154 tons at 8s. 11½d.			
Discharging at Genoa .. .. .	93	15	3
Agents' Disbursements, Genoa, deducted from freight remitted (exch. 27.22) lire 3012.80.			
Captain's Expenses, Genoa .. .. .	7	19	0
Stevedore at Agua Amarga, loading 3,660 tons Ore ..	152	10	0
Despatch Money .. .. .	213	13	4
Interest on Advance .. .. .	10	19	9
Captain's Expenses .. .. .	5	15	
Agents' Accounts for Port Charges, Agency, etc., exclusive of address Commission and Brokerage (exch. 26.75) pesetas 2,964.88.			
Bunker Coals at Portland, 20 tons at 18s. 6d., and Port Charges, £3 2s.			
Port Charges, Discharging and Despatch Money at Barrow .. .. .	423	7	6
Captain's Portage Bill .. .. .	168	6	8
Overlookers' Expenses .. .. .	4	5	0

The voyage terminated on April 28th, 1922.

Prepare the Voyage Account, showing the net profit or loss.

## VOYAGE ACCOUNT.

Dr. FROM 27TH FEB., 1922, TO 28TH APRIL, 1922.

Cr.

To Stores A/cs .. ..	162	8	1	By Freight—			
„ Port Charges, Trimming, etc., Cardiff .. ..	121	2	3	Cardiff to Genoa—			
„ Captain's A/cs for Harbour Wages, etc., Cardiff ..	64	7	6	3,190 tons Coal @ 8s. 9d. .. ..	1,395	12	6
„ Bunker Coal, as per Engi- neer's Receipt—				Agua Amarga to Barrow—			
279 tons @ 9s. £125 11 0				3,660 tons Ore @ 8s. 3d.	1,509	15	
154 tons @ .. ..				„ Brokerage refunded—			
8s. 11½d. 68 16 5				½ of £69 15s. 7d... ..	23	5	2
„ Discharging at Genoa ..	194	7	5				
„ Agent's disbursements, Genoa, deducted from Freight remitted, 3012'80 lire @ 27'22 ..	93	15	3				
„ Captain's Expenses, Ge- noa .. ..	110	13	8				
„ Stevedore at Agua Amar- ga, loading 3,660 tons of Ore .. ..	7	19					
„ Despatch Money .. ..	152	10					
„ Interest on Advance .. ..	213	13	4				
„ Captain's Expenses .. ..	10	19	9				
„ Agents' A/cs for port charges, agency, etc., exclusive of Address Commissions and Broker- age, 2964'88 pesetas @ 26'75 .. ..	5	15	9				
„ Bunker Coals at Portland, 20 tons @ 18s. 6d. ..	110	16	9				
„ Port Charges, Portland ..	18	10					
„ Port Charges, discharging and despatch money at Barrow .. ..	3	2					
„ Captain's Portage Bill ..	423	7	6				
„ Overlookers' Expenses ..	168	6	8				
„ Address Commissions—	4	5					
2 % of £1,395 12s. 6d. .. £27 18 3							
2½ % of £1,509 15s. 0d... 37 14 10							
„ Brokerage—	65	13	1				
5 %, £1,395 12s. 6d. .. £69 15 7							
½ of 5 % of £1,509 15s. 25 3 3							
„ Insurance Premium, 2 months, ½ of £1,952 10s. 8d. .. ..	94	18	10				
„ Managing Owner's Com- mission—	325	8	5				
1 year = 2,211 tons @ 2s. 6d. = £276 7s. 6d. ; 2 months = ½ of £276 7s. 6d. = .. ..	46	1	3				
„ Balance (Net Profit) ..	530	11	2				
£ 2,928 12 8				£ 2,928 12 8			

**WAGES.**—The remuneration paid to employees. In book-keeping, wages are classified into manufacturing, productive, or remunerative wages, and non-productive or unremunerative wages. The amount of the former is an item in the cost of goods, and is debited to Trading Account. For instance, a furniture manufacturer buys raw material, such as timber, and sells a manufactured article, such as furniture. He could not credit the sale of the manufactured article, *i.e.*, the furniture, against merely the cost of the raw material. He must credit the sale of the manufactured article against the cost of the manufactured article, which is the cost of the timber plus the wages paid to manufacture it into furniture. Hence, all factory, manufacturing, or productive wages are charged to Trading Account. Non-productive wages and salaries are debited to Profit and Loss; such are the wages of night-watchmen, carmen, etc., salaries of clerks, store-keepers, managers, etc.

WAGES ANALYSIS BOOK.—(See COST ACCOUNTS.)

WAGES BOOK.—See specimen ruling.

## WAGES BOOK

WEEK ENDING.....19..

[illegible]

WAGES SHEET.—(See CONTRACTS.)

WAGON ACCOUNT—WAGON HIRE ACCOUNT—WAGON PURCHASE ACCOUNT.—(See HIRE-PURCHASE ACCOUNTS and INSTALMENT PAYMENT PURCHASES.)

WASTAGE.—(See SHRINKAGE.)

**WASTE BOOK**,—A book in which transactions are entered in order of date. It was formerly the book from which the

## STATEMENT OF STOCK AND LOAN CAPITAL, 31 DEC., 19..

Act of Parliament authorising the issue.	Description of Capital.	Amount paid up.	Remaining to be issued.	Total amount authorised.

CAPITAL ACCOUNT FOR THE YEAR ENDING 31 DEC., 19..										Cr.
Dr.	Expenditure.	Amount Expended to 30th June, 19..	Amount Expended during Half-year.	Total.	Receipts.	Amount Received to 30th June, 19..	Amount Received during Half-year.	Total.		
	To Purchase of Lands and Build- ings .. ..				By "A" Ordinary Stock.. ..					
	" Construction of Works .. ..				" "B" Ordinary Stock.. ..					
	" New Mains and Service Pipes (not in place of old) and cost of laying same.. ..				" Preferred Stock .. ..					
	" New Meters (not in place of old) and cost of fixing .. ..				" Debenture Stock .. ..					
	" Plumbing Plant and Tools .. ..				" Premiums .. ..					
	" Parliamentary Expenses .. ..				" Amounts received in anticipa- tion of Calls .. ..					
	" Balance carried to Balance Sheet								£	





Journal was written up. It is seldom used now except in banks.

**WATER COMPANY'S ACCOUNTS.**—Although not compulsory, these are usually kept on the **DOUBLE ACCOUNT SYSTEM**, to which the student should refer. Examples are shown on pages 761-762.

**Water Works Clauses Act, 1847.**—By this Act a Water Company must not pay a dividend in excess of the prescribed rate, or if no rate is prescribed, in excess of 10 per cent. of the paid-up capital of the undertaking. Where the profits of any year are in excess of the prescribed rate, or of the said 10 per cent., the excess may be invested and allowed to accumulate at compound interest to form a Reserved Fund of the prescribed amount, or if no amount is prescribed, until it amounts to a sum equal to  $\frac{1}{10}$  of the nominal capital of the company. When the fund has reached the prescribed amount, or the  $\frac{1}{10}$ th as the case may be, the interest on the investments may be applied to the general purposes of the undertaking. The Reserved Fund is to be available to make good any deficiency in any year in the normal rate of dividend, and also to meet any extraordinary claims. A copy of the annual accounts must be forwarded by January 31st each year to the Clrk of the Peace for the county in which the water works are situated, and must be open to the inspection of any person on payment of one shilling.

**WATER, DAMAGE BY.**—(See **DAMAGE**.)

**WATERED CAPITAL—WATERED STOCK.**—The issue of additional capital or stock without any extra payment in cash, as, for example, bonus shares.

**WAYLEAVE.**—A right of way or water-course which one proprietor has in, or through the estate of another; also the rental paid for same. Legally, such privileges, advantages, or liberties, without profit, are known as easements.

**WEAR AND TEAR.**—(See **DEPRECIATION**, also **INCOME TAX**.)

**WHOLESALE.**—The buying and selling of goods in *large* quantities, as opposed to Retail.

**WHOLESALE BRANCHES.**—(See **BRANCH ACCOUNTS**.)

**WILL.**—The legal declaration of a person's wishes and intentions with reference to the disposal of his property after his death. The person who makes the will is called the testator or testatrix, and the will itself is called the testament. A will, to be valid, must be signed by the testator

in the presence of two witnesses, who must also attest his signature. A person who dies without having made and left a will is called an intestate. (See also CODICIL, PROBATE, and EXECUTOR.)

**WINDING UP.**—The process by which a Limited Company terminates its legal existence. As mentioned under STATEMENT OF AFFAIRS, a company cannot be made bankrupt; it must be wound up. Bankruptcy, however, is not always the cause of winding up: there may be other causes; and a perfectly solvent company is sometimes wound up in order to amalgamate with another. There are three methods of winding up—

- (1) Compulsory, *i.e.*, by order of the Court.
- (2) Voluntary, *i.e.*, by the Company itself.
- (3) Voluntary under supervision of the Court.

**Compulsory Winding Up.**—By Section 129 of the Companies (Consolidation) Act, 1908, a company may be wound up by the Court—

- (1) If the company has by special resolution resolved that the company be wound up by the court;
- (2) If default is made in filing the statutory report or in holding the statutory meeting;
- (3) If the company does not commence its business within a year from its incorporation, or suspends its business for a whole year;
- (4) If the number of the members is reduced, in the case of a private company, below two or, in the case of any other company, below seven;
- (5) If the company is unable to pay its debts;
- (6) If the court is of opinion that it is just and equitable that the company should be wound up.

**Courts Having Winding-up Jurisdiction.**—These are the High Court, the Chancery Courts of the counties palatine of Lancaster and Durham, and the county courts having bankruptcy jurisdiction. The Metropolitan county courts have no winding-up jurisdiction. By Section 131 of the Act—

Where the amount of the share capital of a company paid up or credited as paid up exceeds ten thousand pounds, a petition to wind up the company shall be presented to the High Court; or, in the case of a company whose registered office is situate within the jurisdiction of either of the palatine courts aforesaid, either to the High Court or to the palatine court having jurisdiction.

Where the amount of the share capital of a company paid up or credited as paid up does not exceed ten thousand pounds, and the registered office of the company is situated within the jurisdiction of a county court having jurisdiction under this Act, a petition to wind up the company shall be presented to that county court.

**Contributories.—By Section 123 of the Act—**

In the event of a company being wound up, every present and past member shall, subject to the provisions of this Section, be liable to contribute to the assets of the company to an amount sufficient for payment of its debts and liabilities and the costs, charges, and expenses of the winding up, and for the adjustment of the rights of the contributories among themselves, with the qualifications following (that is to say)—

- (i) A past member shall not be liable to contribute if he has ceased to be a member for one year or upwards before the commencement of the winding up ;
- (ii) A past member shall not be liable to contribute in respect of any debt or liability of the company contracted after he ceased to be a member ;
- (iii) A past member shall not be liable to contribute unless it appears to the court that the existing members are unable to satisfy the contributions required to be made by them in pursuance of this Act ;
- (iv) In the case of a company limited by shares, no contribution shall be required from any member exceeding the amount, if any, unpaid on the shares in respect of which he is liable as a present or past member ;
- (v) In the case of a company limited by guarantee, no contribution shall be required from any member exceeding the amount undertaken to be contributed by him to the assets of the company in the event of its being wound up ;
- (vi) Nothing in this Act shall invalidate any provision contained in any policy of insurance or other contract whereby the liability of individual members on the policy or contract is restricted, or whereby the funds of the company are alone made liable in respect of the policy or contract ;
- (vii) A sum due to any member of a company, in his character of a member, by way of dividends, profits, or otherwise, shall not be deemed to be a debt of the company, payable to that member in a case of competition between himself and any other creditor not a member of the company ; but any such sum may be taken into account for the purpose of the final adjustment of the rights of the contributories among themselves.

**When a Company is deemed unable to Pay its Debts.—**  
Section 130 of the Companies (Consolidation) Act, 1908, enacts as follows—

A company shall be deemed to be unable to pay its debts—

- (i) if a creditor, by assignment or otherwise, to whom the company is indebted in a sum exceeding fifty pounds then due, has served on the company, by leaving the same at its registered office, a demand under his hand requiring the company to pay the sum so due, and the company has for three weeks thereafter neglected to pay the sum, or to secure or compound for it to the reasonable satisfaction of the creditor ; or

- (ii) if, in England or Ireland, execution or other process issued on a judgment decree or order of any court in favour of a creditor of the company is returned unsatisfied in whole or in part ; or
- (iii) if it is proved to the satisfaction of the court that the company is unable to pay its debts, and, in determining whether a company is unable to pay its debts, the court shall take into account the contingent and prospective liabilities of the company.

### Petition for Winding Up.—By Section 137 of the Act—

An application to the court for the winding up of a company shall be by petition, presented subject to the provisions of this Section either by the company, or by any creditor or creditors (including any contingent or prospective creditor or creditors), contributory or contributories, or by all or any of those parties, together or separately : Provided that

- (a) A contributory shall not be entitled to present a petition for winding up a company unless—
  - (i) either the number of members is reduced, in the case of a private company, below two, or, in the case of any other company, below seven ; or
  - (ii) the shares in respect of which he is a contributory, or some of them, either were originally allotted to him or have been held by him, and registered in his name, for at least six months during the eighteen months before the commencement of the winding up, or have devolved on him through the death of a former holder ; and
- (b) A petition for winding up a company on the ground of default in filing the statutory report or in holding the statutory meeting shall not be presented by any person except a shareholder, nor before the expiration of fourteen days after the last day on which the meeting ought to have been held.

**Statement of Affairs.**—This is required by Section 147, which says—

Where the court in England has made a winding-up order, there shall be made out and submitted to the official receiver a statement as to the affairs of the company in the prescribed form, verified by affidavit, and showing the particulars of its assets, debts, and liabilities ; the names, residences, and occupations of its creditors ; the securities held by them respectively ; the dates when the securities were respectively given ; and such further or other information as may be prescribed or as the official receiver may require.

**Lists.**—The lists “ A ”-“ E ” are the same as shown under STATEMENT OF AFFAIRS IN BANKRUPTCY. There is, however, no special list for Rent, “ F ” being used for Preferential Creditors and “ G ” for Debenture Holders. The Front Sheet and the remaining lists (including several additions) are as follows—



In the Court of  
IN THE MATTER OF THE COMPANIES ACTS, 1908-1917  
AND  
IN THE MATTER OF 1  
STATEMENT OF AFFAIRS on the 19, the date of the Winding-up Order  
(I.) AS REGARDS CREDITORS.

1 Insert full  
Name of Com-  
pany.

Gross Liabilities.	Liabilities.	Expected to Rank.	Assets.	Estimated to Produce.
Debts and Liabilities, viz.—	Unsecured Creditors, as per (a) list "A" .. .. .		(a) Property as per list "H," viz.— (a) Cash at Bankers .. .. . (b) " in hand .. .. . (c) Stock-in-Trade .. .. . (d) Machinery .. .. . (e) Trade Fixtures, Fittings, Utensils, &c. .. .. . (f) Investments in Shares, &c. .. .. . (g) Loans on Mortgage .. .. . (h) Other Property, viz.— (i) Book Debts ( Debtors), as per list "I," viz.— Good .. .. . Doubtful .. .. . Bad .. .. .	£ s. d. £ s. d. £ s. d.
(a) (State number) (b) Creditors fully secured (not includ- ing Debenture Holders) as per list "B" .. .. .	Estimated value of Securities .. .. .		Estimated to produce .. .. . (c) Bills of Exchange or other similar securities on hand, as per list "J" .. .. . Estimated to produce .. .. . (d) Surplus from Securities in the hands of Creditors fully secured (per contra) (b) .. .. . (e) Unpaid Calls, as per list "K" ( debtors) .. .. . Estimated to produce .. .. . Estimated Total Assets .. .. . Deduct Preferential Creditors, as per contra (f) .. .. . Estimated Amount available to meet Claims of Deben- ture-holders .. .. . Deduct Loans on Debenture Bonds secured on the Assets of the Company as per contra (g) .. .. . Estimated Amount available to meet Unsecured Credi- tors, subject to cost of Liquidation .. .. . Estimated Deficiency of Assets to meet Liabilities of the Company, subject to cost of Liquidation .. .. .	£ s. d. £ s. d. £ s. d. £ s. d. £ s. d. £ s. d. £ s. d. £ s. d.
(c) Creditors partly secured, as per list "C" .. .. . Less estimated value of Securities .. .. .	Balance to contra (d) .. .. . Estimated Surplus .. .. . Carried to list "C" .. .. .			
(d) Liabilities on Bills Discounted other than the Company's own acceptances for value, as per list "D" .. .. . Of which it is expected will rank for Dividend .. .. . (e) Other Liabilities, as per list "E" .. .. . Of which it is expected will rank for Dividend .. .. . (f) Preferential Creditors for Rates, Taxes, Wages, &c., as per list "F" .. .. . deducted contra .. .. .	£ s. d. £ s. d. £ s. d. £ s. d.			
(g) Loans on Debenture Bonds, as per list "G" deducted contra .. .. . ( holders.) .. .. .	£ s. d.			
Estimated Surplus (if any) after meeting Liabilities of Company, subject to cost of Liquidation .. .. .	£ s. d.			

The Nominal Amount of Unpaid Capital liable to be called up is £....., which is (available to meet above deficiency) or (charged to debenture-holders), or as the case may be.



## (II.) AS REGARDS CONTRIBUTORIES.

Capital issued and allotted, viz.—

... Founders' Shares of £.... per Share (..... Shareholders).

(a) Issued as fully paid.

Amount called up at £.... per Share, as per List "L"

..... Ordinary Shares of £.... per Share (..... Shareholders).

(a) Issued as fully paid

Amount called up at £.... per Share, as per List "M"

..... Preference Shares of £.... per Share (..... Shareholders).

(a) Issued as fully paid

Amount called up at £.... per Share, as per List "N"

(b) Amount (if any) paid in advance of call .. ..

Less unpaid calls estimated to be irrecoverable..

Add deficiency to meet liabilities as above .. ..

Total deficiency as explained in Statement "O" .. ..

Estimated Surplus as above (if any), subject to cost of Liquidation .. ..

(a) Where capital is issued as partly paid up, the form should be altered accordingly.  
(b) Add particulars of any other capital.

I, ....., of ....., make oath and say that the foregoing Statement and the several Lists hereunto annexed marked ....., are to the best of my knowledge and belief, a full, true, and complete statement of the affairs of the above-named Company, on the ....., day of ....., 19... the date of the Winding-up Order

Sworn at ....., in the County of ....., this ....., day of ....., 19...

Before me, ....., 19...  
.....  
A Commissioner for Oaths

Signature.....

## LIST "G."—LIST OF DEBENTURE-HOLDERS.

The Names to be arranged in alphabetical order and numbered consecutively.  
SEPARATE LISTS must be furnished of holders of each issue of Debentures, should more than one issue have been made.

No.	Name of Holder.	Address.	Amount.	Description of Assets over which Security extends.

## LIST "H."—PROPERTY.

Full particulars of every description of property not included in any other lists are to be set forth in this list.

	Full Statement and Nature of Property.	Estimated Cost.	Estimated to Produce.
(a) Cash at Bankers ..	.. ..	..	..
(b) " in hand ..	.. ..	..	..
(c) Stock-in-Trade, at ..	.. ..	..	..
(d) Machinery, at ..	.. ..	..	..
(e) Trade Fixtures, Fittings, Office Furniture, Utensils, etc. ..	.. ..	..	..
(f) Investments in Stocks or Shares, etc. ..	.. ..	..	..
(g) Loans for which Mortgage or other security held ..	.. ..	..	..
(h) Other Property, viz.—	.. ..	..	..

(State particulars)

(State particulars)







LIST "P."—IN SUBSTITUTION FOR SUCH OF THE LISTS NAMED "A" TO "O" AS WILL  
HAVE TO BE RETURNED BLANK.

LIST.	PARTICULARS, AS PER FRONT SHEET.	REMARKS. <i>Where no particulars are entered on any one or more of the Lists named "A" to "O," the word "Nil" should be inserted in this column opposite the particular List or Lists thus left blank.</i>
A	Unsecured Creditors .. .. .	.. .. .
B	Creditors fully secured (not including debenture-holders) .. .. .	.. .. .
C	Creditors partly secured .. .. .	.. .. .
D	Liabilities on Bills discounted other than the Company's own acceptances for value .. .. .	.. .. .
E	Other Liabilities .. .. .	.. .. .
F	Preferential Creditors for rates, taxes, wages, &c. . . . .	.. .. .
G	Loans on Debenture Bonds .. .. .	.. .. .
H	Property .. .. .	.. .. .
I	Book Debts .. .. .	.. .. .
J	Bills of Exchange or other similar Securities on hand .. .. .	.. .. .
K	Unpaid Calls .. .. .	.. .. .
L	Founders' Shares .. .. .	.. .. .
M	Ordinary Shares .. .. .	.. .. .
N	Preference Shares .. .. .	.. .. .
O	Deficiency Account .. .. .	.. .. .

Signature .....

Dated .....19..





DEFICIENCY ACCOUNT.

MADE within Three Years of FORMATION OF COMPANY.

I. Expenditure in carrying on business from date of formation of Company to date of Winding-up Order, viz.—															
										Amount dis-charged.			Due at date of Winding-up Order.		
II. General Expenditure—															
Salaries .. .. .															
Wages not charged in Trading Account .. ..															
Rent .. .. .															
Rates and Taxes .. .. .															
Law Costs.. .. .															
Commission .. .. .															
Interest on Loans .. .. .															
„ on Debentures .. .. .															
Miscellaneous Expenditure (as per details annexed) ..															
III. Directors' Fees from date of formation of Company to date of Winding-up Order .. .. .															
IV. Dividends declared during same period .. .. .															
V. Losses and Depreciation written off in Company's Books (1)—															
Bad Debts .. .. .															
Losses on Investments .. .. .															
Depreciation on Property .. .. .															
Preliminary Expenses .. .. .															
VI. Losses and Depreciation not written off in Company's Books, now written off by the Directors (1)—															
Bad Debts .. .. .															
Losses on Investments .. .. .															
Depreciation on Property .. .. .															
Preliminary Expenses .. .. .															
VII. Other Losses and Expenses .. .. .															
Total Amount accounted for .. .. .															£

Signature

Dated

## LIST "O" (2).

## (2) DEFICIENCY ACCOUNT WHERE WINDING-UP ORDER

<hr/>											
I. Excess of Assets over Capital and Liabilities on the <sup>(1)</sup> day of											
19 (if any), as per Company's Balance Sheet. (This and any previous Balance											
Sheets to be annexed or handed to O.R.) .. .. .											
II. Gross Profit (if any) arising from carrying on business from the <sup>(2)</sup> day of											
, 19 , to date of Winding-up Order as per Trading Account											
annexed .. .. .											
III. Receipts (if any) during same period from undermentioned sources—											
Interest on Loans .. .. .											
" on Deposits .. .. .											
Transfer Fees .. .. .											
Amounts paid on Shares issued and subsequently forfeited (as per List annexed)											
IV. Other Receipts (if any) during same period not included under any of the above											
headings .. .. .											
V. Deficiency as per Statement of Affairs—Part II. .. .. .											
Total Amount to be accounted for .. .. .											
.. (3) £											
<hr/>											

NOTES.—(1) Three years before date of Winding-up Order.

(2) Where particulars are numerous, they should be inserted in a separate Schedule.

(3) These figures should agree.

DEFICIENCY ACCOUNT.

MADE more than Three Years after FORMATION OF COMPANY.

- I. Excess of Capital and Liabilities over Assets on the <sup>(1)</sup> day of 19  
(if any), as per Company's Balance Sheet. (This and any previous Balance  
Sheets to be annexed or handed to O.R.) .. .. .
- II. Expenses of carrying on business from the <sup>(1)</sup> day of 19 ,  
to date of Winding-up Order, viz.—

	Amount dis- charged.	Due at date of Winding- up Order.
General Expenditure—		
Salaries .. .. .		
Wages not charged in Trading Account .. .. .		
Rent .. .. .		
Rates and Taxes .. .. .		
Law Costs .. .. .		
Commission .. .. .		
Interest on Loans .. .. .		
„ on Debentures .. .. .		
Miscellaneous Expenditure (as per details annexed)		
III. Directors' Fees from the <sup>1)</sup> day of 19 , to date of Winding-up Order .. .. .		
IV. Dividends declared during same period .. .. .		
V. Losses and Depreciation from the day of 19 , <sup>(1)</sup> written off in Company's Books, viz. <sup>(2)</sup> —		
Bad Debts .. .. .		
Losses on Investments .. .. .		
Depreciation of Property .. .. .		
Preliminary Expenses .. .. .		
VI. Losses and Depreciation not written off in Company's Books, now written off by Directors <sup>(2)</sup> —		
Bad Debts .. .. .		
Losses on Investments .. .. .		
Depreciation of Property .. .. .		
Preliminary Expenses .. .. .		
VII. Other Losses and Expenses <sup>(2)</sup> .. .. .		
Total Amount accounted for .. .. .		£ <sup>(8)</sup>

Signature

Dated

19

**Power of Court to make Calls on Contributories.—By Section 166—**

The court may, at any time after making a winding-up order, and either before or after it has ascertained the sufficiency of the assets of the company, make calls on and order payment thereof by all or any of the contributories for the time being settled on the list of the contributories to the extent of their liability for payment of any money which the court considers necessary to satisfy the debts and liabilities of the company ; and the costs, charges, and expenses of winding up ; and for the adjustment of the rights of the contributories among themselves.

**Appointment of Liquidator.—Section 149 of the Act reads—**

(1) For the purpose of conducting the proceedings in winding up a company and performing such duties in reference thereto as the court may impose, the court may appoint a liquidator or liquidators.

(2) The court may make such an appointment provisionally at any time after the presentation of a petition and before (where the proceedings are in England) the making of an order for winding up, or (where the proceedings are in Scotland or Ireland) the first appointment of liquidators.

(3) Where the proceedings are in England—

(a) If a provisional liquidator is appointed before the making of a winding-up order, the official receiver or any other fit person may be appointed :

(b) On a winding-up order being made, the official receiver shall, by virtue of his office, become the provisional liquidator, and shall continue to act as such until he or another person becomes liquidator and is capable of acting as such :

(c) When a person other than the official receiver is appointed liquidator, he shall not be capable of acting as liquidator until he has notified his appointment to the registrar of companies and given security in the prescribed manner to the satisfaction of the Board of Trade.

**Powers of the Liquidator.—These are defined in Section 151, which enacts as follows—**

The liquidator in a winding up by the court shall have power, in the case of a winding up in England with the sanction either of the court or of the committee of inspection, and in the case of a winding up in Scotland or Ireland with the sanction of the court—

(a) to bring or defend any action or other legal proceeding in the name and on behalf of the company :

(b) to carry on the business of the company, so far as may be necessary for the beneficial winding up thereof.

**Payments of Liquidator into Bank of England or Local Bank.—By Section 154 of the Companies (Consolidation) Act, 1908—**

(1) Every liquidator of a company which is being wound up by the court in England shall, in such manner and at such times as the Board

of Trade, with the concurrence of the Treasury, direct, pay the money received by him to the Companies' Liquidation Account at the Bank of England, and the Board shall furnish him with a certificate of receipt of the money so paid :

Provided that, if the committee of inspection satisfy the Board of Trade that for the purpose of carrying on the business of the company or of obtaining advances, or for any other reason, it is for the advantage of the creditors or contributories that the liquidator should have an account with any other bank, the Board shall, on the application of the committee of inspection, authorise the liquidator to make his payments into and out of such other bank as the committee may select, and thereupon those payments shall be made in the prescribed manner.

(2) If any such liquidator at any time retains for more than ten days a sum exceeding fifty pounds, or such other amount as the Board of Trade in any particular case authorise him to retain, then, unless he explains the retention to the satisfaction of the Board, he shall pay interest on the amount so retained in excess at the rate of twenty per cent. per annum, and shall be liable to disallowance of all or such part of his remuneration as the Board may think just, and to be removed from his office by the Board, and shall be liable to pay any expenses occasioned by reason of his default.

**Copy of Liquidator's Accounts to be sent to Board of Trade.—**  
**Section 155 of the Act requires—**

Every liquidator of a company which is being wound up by the court in England shall, at such times as may be prescribed, but not less than twice in each year during his tenure of office, send to the Board of Trade, or as they direct, an account of his receipts and payments as liquidator.

**Liquidator's Cash Book.—**See specimen ruling on next page.

**Release of Liquidator.—**Section 157 enacts as follows—

When the liquidator of a company which is being wound up by the court in England has realised all the property of the company, or so much thereof as can, in his opinion, be realised without needlessly protracting the liquidation, and has distributed a final dividend, if any, to the creditors, and adjusted the rights of the contributories among themselves, and made a final return, if any, to the contributories, or has resigned, or has been removed from his office, the Board of Trade shall, on his application, cause a report on his accounts to be prepared ; and, on his complying with all the requirements of the Board, shall take into consideration the report, and any objection which may be urged by any creditor, or contributory, or person interested against the release of the liquidator, and shall either grant or withhold the release accordingly, subject nevertheless to an appeal to the High Court.

**Voluntary Winding Up.—**It is provided in Section 182 of the Companies (Consolidation) Act, 1908, that—

A company may be wound up voluntarily—

(1) When the period (if any) fixed for the duration of the company by the articles expires, or the event (if any) occurs, on the



## LIQUIDATOR'S CASH BOOK.

[illegible]

PAYMENTS.														Cr.
COSTS OF REALISATION.														
Paid into Bank.		Board of Trade and Court Fees.	Law Costs of Petition.	Law Costs after Winding-up Order.	Remuneration of Manager and Liquidator.	Official Receiver's Com. on Assets realised, and amount distributed in Dividend or paid to Contributories.	Charges of Auctioneer, Accountant, Shortland Writer, etc., as taxed.	Notices in <i>Gazette</i> and Local Paper.	Incidental Expenses, including Possession.	Preferential Creditors and Rent.	Payment to Redeem Securities.	Dividends Paid.	Repayments to Contributories.	Other Payments.

occurrence of which the articles provide that the company is to be dissolved, and the company in general meeting has passed a resolution requiring the company to be wound up voluntarily :

- (2) If the company resolves by special resolution that the company be wound up voluntarily :
- (3) If the company resolves by extraordinary resolution to the effect that it cannot by reason of its liabilities continue its business, and that it is advisable to wind up.

When a company has resolved by special or extraordinary resolution to wind up voluntarily, it must give notice of the resolution by advertisement in the *Gazette*.

**Consequences of Voluntary Winding Up.**—By Section 186 it is enacted as follows—

The following consequences shall ensue on the voluntary winding up of a company—

- (i) The property of the company shall be applied in satisfaction of its liabilities *pari passu*, and, subject thereto, shall, unless the articles otherwise provide, be distributed among the members according to their rights and interests in the company :
- (ii) The company in general meeting shall appoint one or more liquidators for the purpose of winding up the affairs and distributing the assets of the company, and may fix the remuneration to be paid to him or them :
- (iii) The liquidator may exercise the powers of the court under this Act of settling a list of contributories, and of making calls, and shall pay the debts of the company, and adjust the rights of the contributories among themselves.

**Costs of Voluntary Liquidation.**—By Section 196—

All costs, charges, and expenses properly incurred in the voluntary winding up of a company, including the remuneration of the liquidator, shall be payable out of the assets of the company in priority to all other claims.

**Voluntary Winding Up subject to Supervision of the Court.**—Section 199 of the Act provides that—

When a company has by special or extraordinary resolution resolved to wind up voluntarily, the court may make an order that the voluntary winding up shall continue, but subject to such supervision of the court, and with such liberty for creditors, contributories, or others to apply to the court, and generally on such terms and conditions as the court thinks just.

**Effect of Supervision Order.**—By Section 203—

Where an order is made for a winding up subject to supervision, the liquidator may, subject to any restrictions imposed by the court exercise all his powers, without the sanction or intervention of the court, in the same manner as if the company were being wound up altogether voluntarily.

**Preferential Payments.**—These are enumerated in Section 209 of the Companies (Consolidation) Act, 1908, which is as follows

- (1) In a winding up there shall be paid in priority to all other debts—
  - (a) All parochial or other local rates due from the company at the date hereinafter mentioned, and having become due and payable within twelve months next before that date, and all assessed taxes, land tax, property or income tax assessed on the company up to the fifth day of April next before that date, and not exceeding in the whole one year's assessment ;
  - (b) All wages or salary of any clerk or servant in respect of services rendered to the company during four months before the said date, not exceeding fifty pounds ; and
  - (c) All wages of any workman or labourer not exceeding twenty-five pounds, whether payable for time or for piece work, in respect of services rendered to the company during two months before the said date : Provided that where any labourer in husbandry has entered into a contract for the payment of a portion of his wages in a lump sum at the end of the year of hiring, he shall have priority in respect of the whole of such sum, or a part thereof, as the court may decide to be due under the contract, proportionate to the time of service up to the said date ; and
  - (d) Unless the company is being wound up voluntarily merely for the purposes of reconstruction or of amalgamation with another company, all amounts (not exceeding in any individual case one hundred pounds) due in respect of compensation under the Workmen's Compensation Act, 1906, the liability whereof accrued before the said date, subject nevertheless to the provisions of Section 5 of that Act.
- (2) The foregoing debts shall—
  - (a) Rank equally among themselves and be paid in full, unless the assets are insufficient to meet them, in which case they shall abate in equal proportions ; and
  - (b) In the case of a company registered in England or Ireland, so far as the assets of the company available for payment of general creditors are insufficient to meet them, have priority over the claims of holders of debentures under any floating charge created by the company, and be paid accordingly out of any property comprised in or subject to that charge.
- (3) Subject to the retention of such sums as may be necessary for the costs and expenses of the winding up, the foregoing debts shall be discharged forthwith so far as the assets are sufficient to meet them.
- (4) In the event of a landlord or other person distraining or having distrained on any goods or effects of the company within three months next before the date of a winding-up order, the debts to which priority is given by this Section shall be a first charge on the goods or effects so distrained on, or the proceeds of the sale thereof :

Provided that in respect of any money paid under any such charge the landlord or other person shall have the same rights of priority as the person to whom the payment is made.
- (5) The date hereinbefore in this Section referred to is—
  - (a) in the case of a company ordered to be wound up compulsorily

which had not previously commenced to be wound up voluntarily, the date of the winding-up order; and

- (b) in any other case, the date of the commencement of the winding up.

**Disposal of Company's Books, etc.**—By Section 222 of the Act—

(1) When a company has been wound up and is about to be dissolved, the books and papers of the company and of the liquidators may be disposed of as follows (that is to say)—

- (a) In the case of a winding up by or subject to the supervision of the court in such way as the court directs;

- (b) In the case of a voluntary winding up in such way as the company by extraordinary resolution directs.

(2) After five years from the dissolution of the company no responsibility shall rest on the company, or the liquidators, or any person to whom the custody of the books and papers has been committed, by reason of the same not being forthcoming to any person claiming to be interested therein.

**Example.**—From the following particulars prepare Statement of Affairs of the Kappa Manufacturing Co., Ltd., as at June 30th, 19.., on which date an order is made for the winding up of the Company—

<b>Issued Capital—</b>		
20,000 Ordinary Shares of £1 each, fully paid .. ..	20,000	
10,000 6% Preference Shares of £1 each, fully called ..	10,000	
The Unpaid Calls amount to £300, and are expected to produce .. ..	200	
6% Mortgage Debentures, interest payable half yearly, paid to 31 Mar., 19.. ..	15,000	
Land and Buildings (cost £15,000) expected to produce ..	12,275	
Book Debts —Good .. ..	12,461	
„ „ —Doubtful, £2,568, expected to produce 7/6 in the £		
„ „ —Bad, £125, expected to produce <i>nil</i>		
Unsecured Creditors on Trade Accounts .. ..	12,627	
Bills Payable .. ..	2,350	
Fully-secured Creditors holding mortgage of Land and Buildings .. ..	10,106	
Partly-secured Creditors .. ..	6,723	
Value of Security held by above .. ..	5,000	
Bills Receivable (good) .. ..	656	
Bank Account overdrawn .. ..	200	
Liabilities on Bills Discounted other than the Company's own Acceptances for value .. ..	2,375	
Amount of above expected to rank for dividend .. ..	560	
Managing Director's Salary, 4 months at £100 .. ..	400	
Cash in hand .. ..	35	
Machinery and Plant (book value, £13,000) .. ..	10,000	
Preferential Creditors for Rates, Taxes, and Wages .. ..	650	

[WIN]

DICTIONARY OF BOOK-KEEPING

[WIN]

Gross Liabilities.	Liabilities.	Amount.	Expected to Rank.	Assets.	Book Value.	Estimated to Produce.
15,577	Unsecured Creditors A) (£12,627 + £2,350 + £400 + £200)		15,577	Property (H)— Cash in hand .. .. .		35
10,106	Fully Secured Creditors (B) Value of Security .. .. .	10,106 12,275		Plant and Machinery .. .. .	13,000	10,000
	Surplus to contra .. .. .	2,169		Total of List H .. .. .		10,935
6,723	Partly Secured Creditors (C) Value of Security .. .. .	6,723 5,000		Book Debts (I)— Good .. .. .		12,461
	Liabilities on Bills Discounted other than Company's own Acceptances for Value .. .. .		1,723	Doubtful .. .. .	2,568	963
2,375	Preferential Creditors for Rates, Taxes, and Wages (F) Deducted in full per contra .. .. .	2,375		Bad .. .. .	1,256	Nil
650	Loans on Debenture Bonds (and Interest £225) (G) deducted <i>per contra</i> .. .. .		560	Bills of Exchange (J) .. .. .	656	656
15,225		15,225		Surplus from Securities in hands of Fully Secured Creditors, as <i>per contra</i> .. .. .		2,169
				Unpaid Calls (K) .. .. .	300	200
				Total Assets .. .. .		26,484
				Deduct Preferential Creditors as <i>per contra</i> .. .. .		650
				Amount available for Debenture-holders Deduct Debentures and Interest as <i>per contra</i> .. .. .		25,834
				Net Assets .. .. .		15,225
				Deficiency .. .. .		10,609
50,656			17,860			7,251
						17,860

There is no uncalled Capital available to meet above deficiency.

II. AS REGARDS CONTRIBUTORIES.

Capital Issued and Allotted— 20,000 Ordinary Shares of £1 each, fully paid .. .. .	20,000	Total Deficiency .. .. .	37,151
10,000 6% Preference Shares of £1 each, fully called .. .. .	10,000		
Less Calls Unpaid irrecoverable .. .. .	30,000		
Add Deficiency as per Statement of Affairs .. .. .	100	29,900	
		7,251	
		37,151	37,151



**Example.**—The Sigma Company, Ltd., in compulsory liquidation, has liabilities as follows—

Trade Creditors unsecured, £6,239.  
 Cash Creditors unsecured, £2,000.  
 Rent owing, £120 (all distrainable).  
 Rates, Taxes, and Wages due, £185 5s. 11d.  
 6% Debentures, £10,000.  
 Half-year's Interest on above, £300.

At the end of six months the Assets realise £16,153 2s. 1d. The Law Costs and Outlays amount to £246 3s. 9d. The liquidator's remuneration is fixed at 3 per cent. on assets realised and 2 per cent. on amount distributed. Make out the Liquidator's Final Statement of Receipts and Payments—

**THE SIGMA COMPANY, LIMITED (*in liquidation*).  
 LIQUIDATOR'S FINAL STATEMENT OF ACCOUNT.**

RECEIPTS.	Amount.	PAYMENTS.	Amount.
To Proceeds of Realisation of Assets .. .. .	16,153 2 1	By Law Costs and Outlays ..	246 3 9
(Details would be shown in actual practice.)		„ Liquidator's Remuneration : 3% on £16,153 2/1 realised.	484 11 10
		2% on £4,428 9/3 distributed*	88 11 4
		„ Preferential Creditors and Debenture Holders—	
		Rent £120 0 0	
		Rates, Taxes, and Wages 185 5 11	
		Debentures & 12 mos.' Int. 10,600 0 0	10,905 5 11
		„ Unsecured Creditors— First and Final Dividend of 10s. 9d. in the £ on £8,239	4,428 9 3
	16,153 2 1		16,153 2 1

\* Equal to  $\frac{2}{100}$  of the gross amount (£4,517 os. 7d.) distributable.

**Returns to Contributories.**—If, after payment of the costs of winding up and the discharge of all liabilities to creditors, there remains a balance in hand, the liquidator must distribute such balance among the shareholders according to their respective rights as per the Memorandum and Articles of Association of the Company.

The Preference Shareholders, if their shares are preferential in regard to return of capital—and they usually are—would first participate in such balance. If this is insufficient to meet their claims, any unpaid capital on the Ordinary Shares would be called up to enable the deficiency to be made good. This does not, however, apply to arrears of Preference



*Dividend*, as the latter is payable only out of profits and not out of capital.

In theory, the *whole* of the unpaid capital should be called up. But where there is sufficient to repay the Preference Capital in full, such calls are not usually made in practice, if it is obvious that the money would simply have to be returned again to the contributing shareholders. Where, however, there are different classes of the same kind of shares, *e.g.*, "A" Ordinary Shares, "B" Ordinary Shares, etc., some fully paid and others partly paid, calls must often be made in order to adjust the rights of these particular shareholders *inter se*. And where there are Founders' or Deferred Shares, the unpaid balance thereon (if any) would be called up, if necessary, in order to facilitate the return of capital to the Ordinary shareholders.

The repayments to contributories must be so arranged, that the different classes of shareholders, as between themselves, lose exactly the same amount per share as a result of the winding up.

If, after return of all the Capital to the shareholders, there still exists a balance in hand, the origin of such surplus must be traced. Unless otherwise provided by the Articles, a revenue surplus is divisible in the same way as profits available for dividend; while a capital surplus is distributable among all the shareholders *pro rata*.

**Example.**—In the voluntary winding up of the Lambda Trading Company, Ltd., the Assets realised £17,104. The costs of liquidation, including the Liquidator's remuneration, amounted to £926. The Liabilities were—

Trade Creditors, £5,750.

Creditors for Rates, Taxes, and Wages, £320.

The Capital of the Company was as follows—

6,000 Preference Shares of £1 each, fully paid.

10,000 "A" Ordinary Shares of £1 each, fully paid.

8,000 "B" Ordinary Shares of £1 each, 10/- per share paid up

The Preference Shares were preferential both as to dividend and also as to return of capital.

A call of 5s. per share was made by the liquidator on the "B" Shares, and was duly received, with the exception of the amount payable on 160 shares.

Make up the Liquidator's Final Account and show the distribution of the proceeds, adjusting the rights of the different classes of shareholders *inter se*.

THE LAMBDA TRADING COMPANY, LTD. (*in liquidation*).  
LIQUIDATOR'S ACCOUNT OF RECEIPTS AND PAYMENTS.

TO DATE OF FINAL MEETING,....., 19...

RECEIPTS.	Detail.	Total.	PAYMENTS.	Detail.	Total.
To Proceeds of Realisation of Assets (in practice particulars would be given) ..		17,104	By Costs of Liquidation, including Liquidator's Remuneration ..		926
" Proceeds of Call on "B" Shareholders—			" Creditors paid in full—	320	
5/- per share on 8,000 shares ..	2,000		Rates, Taxes, & Wages..	5,750	
Less Call not paid on 160 shares.. ..	40	1,960	Trade Accounts.. ..		6,070
			Returns to Contributors—		
			Preference Shareholders—		
			£1 per share on 6,000 shares .. ..	6,000	
			Ordinary Shareholders—		
			9/- per share on 10,000 "A" Shares .. ..	4,500	
			4/- per share on 7,840 "B" Shares .. ..	1,568	
		19,064			12,068
					19,064

Note 1.—The 160 Shares on which the Call made by the Liquidator was not paid will be forfeited, and hence they will not participate in the return of money in respect of that class of shares.

Note 2.—The "A" Shares have paid 20/- and receive back 9/-, losing 11/- per share. The "B" Shares have paid 15/- per share and receive back 4/-, losing 11/- per share. Thus both classes of Ordinary Shareholders lose exactly the same amount.

**WITHDRAWALS BY PARTNERS.**—(See **PARTNERSHIP ACCOUNTS.**)

**WORK-IN-PROGRESS.**—(See **CONTRACTS.**)

**WORKING ACCOUNT.**—(See **MANUFACTURING ACCOUNT.**)

**WORKING CAPITAL.**—(See **CAPITAL.**)

**WORKING COSTS.**—Expenses of working a mine, quarry, etc., or of running ships, trains, trams, motor 'buses, etc.

**WORKS COST.**—(See **COST ACCOUNTS.**)

**WORKS ONCOST.**—(See **COST ACCOUNTS.**)

**WRITE OFF.**—To transfer to Profit and Loss Account, either directly or indirectly through the medium of a subsidiary account; for example, to write off Preliminary Expenses, to write off depreciation, to write off as a bad debt.









